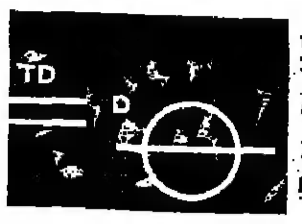

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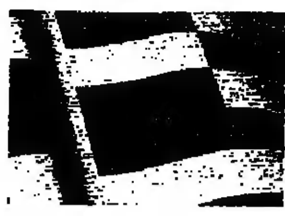

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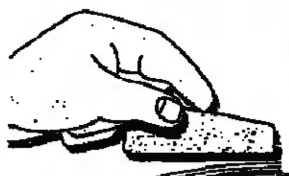

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FINANCIAL TIMES

Europe's Business Newspaper | TUESDAY AUGUST 16 1994 | D8523A

HSBC suspends own-account bond trading after loss

International banking group HSBC Holdings has suspended proprietary trading on bond markets after losing £123m ($191m) on bond and interest rate-related trading during a turbulent first half of the year. HSBC's shares fell 10p to 749p after it revealed that its exposure to financial trading led to a 10 per cent fall in non-interest income to £1.47bn from £1.63bn. However, a fall in provisions for bad and doubtful debts allowed HSBC to raise pre-tax profits by 24 per cent to £1.46bn from £1.18bn. The interim dividend rose 14 per cent to 8p per share. Page 15; Lex, Page 14; Hang Seng Bank up, Page 17; Midland advances, Page 21

Foreign companies to gain London listing: The London Stock Exchange announced it was establishing its first-ever Global Depositary Receipts programme enabling foreign companies to obtain a full London share listing. Page 14

Hoechst: Shares in the German chemicals group were invigorated by news it had developed an "ozone-eating" filter material with a wide range of industrial and domestic applications - and sales potential of up to DM500m ($318m) a year. Page 14; World stocks, Page 34

MMM head charged with tax evasion

Sergei Mavrodi (left), head of the MMM investment fund that lured millions of Russians into buying its shares with promises of high returns, was charged with tax evasion and obstructing an investigation, the Itar-Tass news agency said. Mavrodi, 39, who was arrested on August 4, could face a five-year jail term if convicted on the tax evasion charge. Page 2

Compromise hopes for crime bill: Democrats and Republicans edged towards a compromise that could bring President Bill Clinton's crime bill back before Congress, perhaps as early as this week. Page 4

Hamas members seized: Palestinian security forces rounded up some 35 members of the extremist Hamas Islamic movement after Israel threatened to halt peace talks until guerrilla attacks against Jewish settlers and soldiers were curbed. Page 3

Kmart, troubled US discount store, reported a 25 per cent fall in earnings for the second quarter and said it was close to announcing plans for a big restructuring. Page 15

Dispute over plutonium: Moscow denied weapons grade plutonium found on a Lufthansa flight last week was Russian, but German experts said its analysis could pinpoint the place of manufacture in Russia. Page 2

Japan to address 'unresolved' war issues: Japan's prime minister Tomiichi Murayama revived hopes in Asia that Japan would provide financial compensation for victims, or their descendants, in territory occupied before 1945. Page 3

Coffee futures rise: Coffee futures prices rose strongly in London and New York following the US Department of Agriculture's estimate that frost damage would cut next year's Brazilian coffee crop by 30 to 40 per cent. Page 15

Czechs to repay IMF debt early: The Czech Republic is to repay its entire outstanding debt of $471m to the International Monetary Fund before the end of September, two years ahead of schedule. Page 2

Russians fire on fishing boats: Russian coastguards fired on two Japanese boats which they said were poaching fish in waters off the disputed South Kurile islands, injuring some crew members, Itar-Tass news agency reported. Japanese officials could not confirm the incident.

German judges replaced: Two German judges who appeared to show understanding for a far-right leader's anti-Semitic views by giving him a suspended sentence for inciting racial hatred would be replaced immediately due to "long-term illness", court officials said.

Frankfurt killings: Police were investigating the deaths of five prostitutes and a brothel owner who were found strangled at a high-class club in Frankfurt.

Monza grand prix to go ahead: The Italian grand prix has been reinstated on the 1994 Formula One calendar following a proposal to modify the Monza circuit, the International Motoring Federation said.

■ STOCK MARKET INDICES

FT-SE 100:	3,142.2	(-0.1)
Yield	4.01	
FT-SE Eurotrack 100	1,361.19	(-1.14)
FT-SE-A All-Share	1,576.94	(-0.1%)
Nikkei	20,626.33	(-37.50)
New York: lunchtime		
Dow Jones Ind Ave	3,774.21	(+5.50)
S&P Composite	462.63	(+0.68)

■ US LUNCHTIME RATES

Federal Funds:	4 3/16%
3-mo Treas Bills: Yld	4.54%
Long Bond	100
Yield	7.493%

■ LONDON MONEY

3-mo Interbank	5 11/16%	(same)
Liffe long gilt future:	Sep 100 21/32	(Sep 100 13/32)

■ NORTH SEA OIL (Argus)

Brent 15-day (Sep)	$16.93	(17.17)

■ GOLD

New York Comex (Sep)	$378.0	(376.2)
London	$377.35	(377.5)

■ STERLING

New York lunchtime:		
$	1.5425	
London:		
$	1.5423	(1.5467)
DM	2.3956	(2.4061)
FFr	8.2359	(8.256)
SFr	2.0117	(2.0204)
Y	154.539	(154.65)
£ Index	78.8	(79.1)

■ DOLLAR

New York lunchtime:		
DM	1.5505	
FFr	5.324	
SFr	1.30135	
Y	100.095	
London:		
DM	1.5533	(1.5557)
FFr	5.34	(5.338)
SFr	1.3044	(1.3063)
Y	100.265	(99.99)
$ Index	63.1	(same)

Tokyo close Y 100.17

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lv60.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr18
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£60.00
France	FFr8.50	Kuwait	Fils 625	Poland	Zl 32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal(mland)	Es225	Turkey	L30000
						UAE	Dh12.00

Rexrodt forecasts economic growth of 2.5% and further fall in unemployment

West German recession 'is over'

By Christopher Parkes in Frankfurt

The west German recession was officially declared over yesterday by Mr Günter Rexrodt, economics minister, who said unemployment was falling and national economic growth could reach 2.5 per cent this year.

Reconstruction of the eastern economy was also progressing rapidly, he said.

Hinting at even more robust prospects for 1995, the minister, speaking in Bonn, took the opportunity to goad opposition Social Democrats (SPD) already discomfited by a further poll showing continued gains for the ruling coalition.

Far from being frivolous and tainted by wishful thinking, as the SPD had claimed, his new year forecasts of up to 1.5 per cent pan-German growth had been shown to be "extremely cautious," Mr Rexrodt claimed.

The economics ministry had also upgraded its earlier prediction of up to 8 per cent growth in the east to a maximum of 10 per cent his year. "Unfortunate talk of de-industrialisation in east Germany is false," Mr Rexrodt said.

Although unemployment would be unacceptably high this year at just over 3.7m, the total would be less than his ministry had forecast earlier, and "horror" scenarios of up to 4.5m unemployed had been proven far removed from reality, he added.

Mr Rexrodt said real income cuts would have to be accepted temporarily in the interests of improving labour market conditions, but employees could count on real increases as productivity improved. But even then moderation would be required until employment levels improved.

This view was echoed in the Bundesbank's latest monthly report, published yesterday, which said rises in hourly wages of more than 6 per cent in 1991 and 1992 were among the fundamental causes of last year's recession.

Between 1989 and 1993 real incomes had grown at more than double the rate justified by economic performance, it said. The central bank has consistently said that this year's 2 per cent pay increase in the west, implying real cuts in purchasing power, was only the first step back to a rational pay policy.

While not as enthusiastic as Mr Rexrodt, the bank also noted that west German industrial production rose 3 per cent in the second quarter, while manufacturing capacity utilisation was at levels last seen in the autumn of 1992. Latest data from the east showed a 27 per cent year-on-year rise in industrial output, it said. The Bundesbank council meets on Thursday – its first meeting since the summer holiday – to decide on interest rate policy.

In an attempt to counter opposition proposals to redistribute tax burdens to help lower income groups, Mr Rexrodt said research had shown "room for manoeuvre" on federal, state and local taxes. The basic minimum income could be freed of tax by 1996, while he also wanted to reduce the net tax on companies.

He said SPD tax proposals would damage growth prospects and endanger jobs.

The minister's up-beat assessment of the recent flood of encouraging economic indicators, coincided with a survey from the Wickert polling institute, which showed the existing government parties with national support at 50.3 per cent.

If elections had been held last Sunday, Chancellor Helmut Kohl's Christian Democrat/Christian Social group would have won 41.1 per cent of the vote and Mr Rexrodt's Free Democratic Party, 9.2 per cent. The SPD would have had a 33.8 per cent and the Greens 9.7 per cent.

Cross-border pact may lead to telecoms merger

By Andrew Adonis in London

The alliance between the national telecommunications companies of Sweden, Switzerland and the Netherlands could lead to a full merger in response to accelerating cross-border telecoms competition, according to senior company strategists.

The three companies last year launched a joint venture, Unisource, to target the growing market for one-stop international telecoms networks. Last month they announced initial steps towards merging their international networks.

Dr Bertil Thorngren, director of corporate strategy at Telia, the state-owned Swedish operator, said: "Within five to 10 years the three companies could become one company. We are set to become more and more integrated over time."

He said a full merger was "one of a range of serious options". Others include an equity exchange between the three operators, and/or a merger of their long-distance and international operations, which would mean spinning off separate local operators in each country to create regional companies akin to the Bell operators in the US.

Such radical options reflect the impact of competitive pressures on Europe's smaller telecoms operators as monopolies are abolished and the European Union's larger operators form alliances to target cross-border traffic.

Most of the smaller western European operators are urgently reassessing their futures. The Irish, Belgian and Portuguese state operators are considering possible sales of minority stakes to larger operators, which in each case may be part of a larger privatisation strategy.

Several smaller operators are in talks about joining Unisource. Telecom Eireann and Belgacom, the Irish and Belgian operators, have also approached British Telecommunications, whose $5.3bn alliance last year with MCI, the second-largest US operator, created alarm among other European operators.

A senior London-based analyst said a Swiss-Swedish-Dutch merger would be the "logical extension of existing strategies".

However, he highlighted "clear difficulties", including the expansion of Unisource and the state-owned status of Telia and the Swiss telecoms operator.

A one-third stake in KPN, the Dutch operator, was floated earlier this year. Privatisation of

Continued on Page 14
Lex, Page 14

Carlos 'the Jackal' arrested

Carlos, "the Jackal", the guerrilla and kidnapper, is being held in Paris after being extradited from Sudan, where he was arrested.

The main picture of Carlos was taken recently in Sudan. The inset picture dates from around the 1970s, when he was blamed for some of the world's most notorious terrorist attacks. Born in Venezuela, Carlos was called Illich in honour of V.I. Lenin, the former Soviet leader. He moved into the world of terrorism in the late 1960s when he joined the Popular Front for the Liberation of Palestine, then at the forefront of Palestinian terrorism. He was subsequently linked with other terrorist groups. Report, Page 14

Workers rights set to become condition for lending

By Nancy Dunne in Washington

President Bill Clinton is set to approve legislation which would make observance of workers' rights a condition of lending by the international lending institutions.

With no fanfare House Democrats have included in an appropriations bill a requirement that US executive directors of the international financial institutions push for "policies to encourage borrowing countries to guarantee internationally recognised worker rights".

The provision completed its passage through Congress with Senate approval last week.

The Clinton administration itself attempted to include labour rights as a goal in all future trade negotiations, but was forced to retreat last week in a deal with Republicans in order to obtain renewal of the president's "fast-track" negotiating authority on trade issues.

The effort to make worker rights a condition of multilateral lending is less controversial in Congress.

Congressman Barney Frank, chairman of the subcommittee overseeing international development institutions, said he had the support of Republicans on his subcommittee when he slipped the provision into an appropriations bill.

"What I've made clear to the Treasury is conscientious enforcement of this [provision] is the price they'll have to pay for continued American participation in the lending institutions," he said.

While the US does not have formal veto power over World Bank and IMF lending, the other executive directors are unlikely to approve loans to which the US objects. Lending to Vietnam only began when the US finally agreed.

The legislation calls on the US Treasury secretary to direct the executive directors of the international financial institutions to include labour rights "as an integral part of the institution's policy dialogue with each borrowing

Continued on Page 14

China's anti-inflation goals emphasised by central bank

By Tony Walker in Beijing

China's central bank, in an unusually forthright public declaration, has called for tight money policies, continued fiscal restraint and curbs on capital spending to combat inflation.

The People's Bank, which for years has sheltered behind a dusty cloak of bureaucratic anonymity, made its "fight-inflation-first" views known in a glossy publication titled "China Financial Outlook, 1994".

While the document contains errors and omissions – understating, for instance, the value of China's gold reserves – it does provide a relatively timely accounting of the country's financial position to the end of 1993. The bank's previous reporting has tended to be much delayed and barely recognisable from propaganda.

China, the bank said, should control investment through fiscal and monetary policies, and reduce domestic demand through a "tight credit policy, thus increasing exports and curtailing imports". Money supply should not be allowed to grow faster than 24 per cent for 1994, which would be broadly in line with monetary growth in 1993.

YEARLY GROWTH RATES OF VARIOUS MONEY AGGREGATES IN 1985-1993 (%)

	1985	1986	1987	1988	1989	1990	1991	1992	1993
M0	24.7	23.3	19.4	46.7	9.8	12.8	20.2	36.5	35.3
M1	5.8	28.1	16.2	22.5	6.3	20.2	23.2	35.7	21.0
M2	17.0	29.3	24.2	22.4	18.3	28.0	26.5	31.3	24.0

People's Bank of China

Publication of "China Financial Outlook, 1994", with its smart graphics, elegant lay-out and attempts at forecasting economic and financial trends for this year, coincides with new legislation redefining the People's Bank's role as the leading institution in the fight against inflation.

The document also reflects the bank's greater self confidence under the governorship of Mr Zhu Rongji, the senior vice-premier in charge of the economy.

In its analysis of likely inflation trends, the bank predicted that price rises would gradually slow over the latter part of the year, although there would be "fluctuations and the whole years's average . . . may continuously remain at a high level."

China reported that the cost of living increase in the 35 main cities was 22.7 per cent in June compared with the same month last year. Retail inflation was about 20 per cent. The bank's forecast gave no indication that it might be prepared to relax credit restrictions during the year or ease monetary targets. But the forecast was drafted in the first quarter before pressures from ailing state enterprises forced some easing of credit.

The People's Bank, in reference to reforms of its charter, defined its role as "keeping the currency stable and promoting economic growth."

China's foreign exchange reserves were expected to support 2.8 months of imports in 1994 compared with 2.94 months in 1993. The forecast underestimated the improvement in China's reserves, which rose by 50 per cent in the first half of the year to $31.8bn. the

Deng's homeland struggles to match coastal China, Page 3

CONTENTS

France adjusts slowly to recovery

Green shoots are viewed with some caution, writes **John Ridding**

The green shoots of France's economic recovery have been breaking through with increasing vigour.

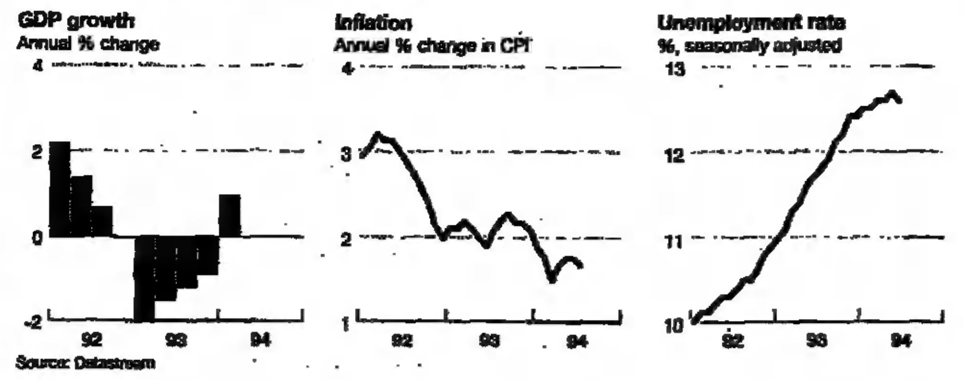
A series of statistics released over the past 10 days, from revised first quarter growth figures to first half employment trends, reveal a rise in momentum as the economy seeks to put behind it the sharp recession of 1993.

Revised first quarter growth figures showed a rise of 0.7 per cent in gross domestic product, with most economists predicting a stronger performance in the second quarter. In June, unemployment fell for the first time in four years, while statistics released last week showed that 60,000 jobs were created in the April-June period. A string of company results, from Air Liquide, the industrial gases group, to the Peugeot-Citroen car company, have revealed healthy sales increases for the first half of the year. Inflation remains moribund at an annualised rate of 1.7 per cent.

"Some of the numbers have been impressive," says Mr Paul O'Brien, European economist at J.P.Morgan. "We are seeing a nice, healthy adjustment on the production and business side." Like many other economists, he has revised up his forecasts for GDP growth this year to just under 2 per cent, compared with a 1 per cent contraction in 1993.

The numbers add up to good news for Mr Edouard Balladur, the prime minister, as France heads for presidential elections next spring. But his reaction has been guarded rather than enthusiastic. "I think that this is the beginning of a real recovery," he says. "But it may be that in the months ahead we have some disappointments. . . . whether it is production figures, export figures or employment figures."

France: good news for Balladur



Such a reaction reveals more than Mr Balladur's cautious nature. As he is aware, the pattern of recovery this year contains elements of weakness which may yet undermine its resilience and duration.

So far this year, the economic revival has been based largely on a slowdown in company destocking and strong export demand from other reviving economies. According to Insee, the national statistics office, the rebuilding of inventories was the single biggest factor in economic growth in the first quarter and remained important in the second.

Such a development, reflected in the strong sales performance of companies supplying intermediate and capital goods, is normal in the early stages of recovery. The concern arises over the prospects for other engines of growth, in particular, consumption and investment.

France's consumers remain very wary of parting with their money. An estimated 1 per cent rise in consumer spending in the second quarter was largely the result of special government incentives in the motor sector, in particular a FFr5,000 (£605) payment to car-owners trading in old vehicles to buy new. Strip out that sector, argues Ms Esther Baroudy, senior economist at Crédit Lyonnais, and one is left with an anaemic performance by the French shopper.

> The pattern of the recovery this year has elements of weakness which may yet undermine its resilience and duration.

The explanation for consumer caution lies partly with continued concerns about the level of unemployment and the reduced generosity of state benefits, for example pensions. Says the manager of one Paris bank: "Many people have friends or relatives out of work. Most are aware that they state pension system is becoming less generous. So the response is to be more careful, spend less and save more."

Mr Balladur hopes this sentiment is beginning to change as the perception of recovery spreads. Economists disagree whether this hope will be realised. Ms Baroudy believes there is a danger the savings ratio will remain stuck where it is and that consumption will weaken sharply in the third quarter. Others argue that, with the employment situation stabilised and preparing to improve, the fear of unemployment will recede. "The developments in the labour market will have a big positive impact," says Mr Bernard Godement, chief economist at the Nomura Research Institute in Paris.

The government has taken several steps besides the car measures to help lift consumption. It is due to transfer FFr6bn to families to help pay for the expenses of the new school year. FFr15bn will also enter consumer's pockets through income tax cuts in the third quarter.

However, another potential constraint on growth is out of the government's hands. Despite the lack of inflationary pressures, turmoil in international bond markets has prompted a rise in long term interest rates from about 5.6 per cent at the start of the year to more than 7 per cent.

Economists play down the threat to industrial investment. "If you look at most French companies they have a relatively strong financial position at the moment," says one. "On balance they are net cash holders." He cites Saint Gobain, the glass and building materials group, as just one company with ambitious investment plans.

The effect on the housing market may be more serious. New house purchases have slipped since the beginning of the year, partly because of the higher cost of long-term finance. Still more worrying is the impact on interest payments on the government's debt as it struggles to curb its budget deficit, targeted at FFr300bn this year.

Economics ministry officials claim the target will be reached, pointing to the imposition of austere spending targets across the government ministries. A further rise in long term yields, however, would present the government with a difficult choice in the run-up to a presidential election: to rein in government spending still further or raise taxes. Neither is a palatable option, and both may damage the green shoots of recovery.

Czechs to repay all IMF debt early

By Vincent Boland in Prague

The Czech Republic is to repay its entire outstanding debt of $471m (£305m) to the International Monetary Fund before the end of September, two years ahead of schedule.

The Czech National Bank said that because of the strength of the country's official foreign exchange reserves, which stood at $5.3bn at the end of July, the loan should be repaid earlier than the first official payment date in 1996. "We expect a further rise in reserves by the end of the year and this allows us to make the repayment ahead of time," said Mr Tomaš Potmešil, an adviser to the governor of the bank, Mr Josef Tošovský.

The loan is part of a package of credits totalling $1.6bn granted by the IMF in 1991 to the former Czechoslovakia. The intention was to strengthen hard currency reserves and finance the country's balance of payments deficits as it embarked on the most ambitious economic reform programme among the former communist economies of eastern Europe.

The Czech Republic and Slovakia separated at the end of 1992, and the debt was divided in the ratio 2.28 to 1 respectively. The loan to be repaid represents the outstanding amount of the Czech Republic's share of the total.

Since the split, the Czech Republic's balance of payments has moved into surplus, driven by a rise in exports to western Europe and the growth of the services sector. At the end of July the surplus stood at Kcs8.7bn (£201m).

Czech foreign exchange reserves have risen sharply this year because of a big increase in the inflow of foreign capital, attracted by the country's economic stability and high long-term interest rates. Reserves stood at an average $3.8bn in 1993 and rose to $4.8bn in May this year.

Reserves at the end of July are at their highest since the economic reform programme of Mr Vaclav Klaus, prime minister, began in 1992.

Apart from the official reserves, Czech banks have also attracted big capital inflows and reserves in the banking system stood at $6.8bn at the end of last month.

Last week the national bank raised its estimate of total foreign capital inflows for 1994 to Kc100bn from Kcs60bn, which would give official reserves of nearly $9bn. It also raised its growth estimate for M2 money supply from 14 per cent to 17, but said the impact on inflation, which hovers close to the bank's target of 10 per cent for the year, should be broadly neutral.

The national bank raised the minimum reserve requirements of Czech banks on August 4 from 9 per cent to 12 per cent of deposits to dampen the inflationary impact of M2 growth and to maintain it at a level consistent with a projected 2 per cent rise in gross domestic product for this year.

Whiff of Greek sewage at the yacht club

Pressure is growing on Greece to smarten up its act on waste disposal, says **Kerin Hope**

An onshore breeze carries a whiff of sewage to wrinkle the noses of shipowners lounging at the yacht club on the Greek island of Andros.

Andros town, the capital, boasts a main street paved with marble and a renowned modern art museum, but it lacks a waste treatment plant. Some Andriot mansions have cesspits, but an estimated 80 per cent of the town's waste pours straight into the Aegean Sea.

This does not amount to much in winter, when the population shrinks to around 2,000. But summer is a different matter, with more than 15,000 visitors and expatriate Andriots packing the beaches at weekends.

"The outlets aren't close to places where people swim. But a municipality on a wealthy island ought to have a sewage treatment plant," says Mr Leonidas Voulgaris, the mayor.

It was only after Andros was included in a European Union environmental programme last year that plans for a sewage treatment plant were approved by the government. The town council had already paid Dr100m (£274,000) to lay a network of pipes. The EU will cover the Dr200m cost of building the plant.

However, the project is now delayed by a "not-in-our-back-yard" protest by a village close to the proposed site for the plant.

"It won't be an eyesore, and the outfall pipe goes 200m out to sea to dump the waste 30 metres deep. But they're still raising objections," says Mr Voulgaris.

Andros's sewage disposal problems are typical both of islands and large Greek cities. It has taken more than 10 years to build a sewage treatment plant for Athens on the deserted islet of Psyttaleia in the Saronic Gulf, together with an undersea pipeline to carry waste from the city. It is due to start operating this autumn.

About 700,000 tons of industrial and household waste are dumped untreated into the Saronic every year.

Another 20,000 tons yearly of oily slops from ships also end up there, according to figures published by Anakiklosi, a Greek ecological group acting as a consultant for the environment ministry.

"For three to five kilometres each side of the main outfall, the sea can't sustain life and the seabed is covered with a thick layer of sludge containing heavy metals," says Mr Philip Kerkitsos, an environmental scientist at the University of the Aegean. "After the treatment facility starts up, it will take 10-15 years for the Saronic to recover."

For a country that relies on sun-and-sea tourism for much of its foreign exchange income, Greece has been slow to develop an awareness of environmental cost. Tourism earnings are projected at $6bn this year, equal to the total forecast value of Greek exports.

However, attitudes are starting to change. The tourism ministry has launched a campaign to check up on whether large hotels have switched on the waste treatment plants they are required by law to install. Several hotels on Corfu, which attracts more than 700,000 tourists yearly, have been fined for pumping raw sewage into the sea.

A sizeable percentage of Greece's Ecu2.6bn (£2.04bn) share of the EU's new Cohesion Fund is being set aside to build waste disposal plants. By the end of the 1990s every town with more than 20,000 residents, together with islands that attract tourists in large numbers, should have a sewage treatment facility.

Yet even if foreign tourists have abandoned the Saronic, bypassing Athens to fly direct to the islands, Greeks have few qualms about swimming in it. About 1.5m Athenians – more than one-third of the city's residents – go to local beaches every Sunday in July and August, according to an environment ministry study.

The ministry is criticised by environmental groups for not carrying out regular water quality tests on beaches near Athens and publicising the results. On the other hand, ecologists appear to agree that away from harbours, swimming in the Saronic is not generally hazardous to health.

Keeping the beaches free of litter is this summer's priority. Greece's only manufacturer of beach-cleaning equipment is working round the clock under a Dr150m environment ministry project to sweep 135km of beaches around Athens and on nearby islands at least twice a week.

The company, Ram Europe, undertakes to pick up what ordinary rubbish collectors leave behind, including cigarette stubs, peach stones and canned drink stoppers. Mr Theodoros Redzos, general manager, says he worked out a set of ecological criteria with the environment ministry so that "plants aren't disturbed, sand is not removed and the machines leave the shape of the shoreline intact."

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Russians deny arms plutonium was theirs

By John Thornhill in Moscow

A stash of weapons grade plutonium found on a Lufthansa flight to Munich from Moscow last week threatened yesterday to provoke a serious diplomatic row between Germany and Russia.

In Moscow the atomic energy ministry yesterday denied the plutonium was Russian but German experts said its analysis could pinpoint the point of manufacture in Russia.

Munich police said couriers they detained last week arriving on a flight from Moscow had been carrying 300-350 grams of radioactive plutonium 239. It was the third seizure in four months of weapons-grade material from the former Soviet bloc. Moscow's atomic energy ministry spokesman, Mr Georgy Kaurov, said Russia could account for all its plutonium but a German government spokesman said this was not true.

Unlike uranium 235, the other material used for making bombs, plutonium 239 does not occur naturally and has to be produced at a nuclear plant. "Statistically speaking, there must still be a high probability that it came from here," said a diplomat in Moscow.

Chancellery aide Mr Bernd Schmidbauer will take with him the analysis of the latest consignment, currently being examined in a laboratory, when he goes to Moscow in the next few days at Chancellor Helmut Kohl's request to discuss nuclear smuggling.

Mr Kaurov said the Russian authorities had conducted an inventory of all sources of plutonium 239 over the previous two weeks and had discovered no thefts or losses.

Russian intelligence sources in Moscow claim the west is deliberately exaggerating the drain of nuclear material from the country in an attempt to force new controls on the domestic nuclear industry.

Mr Kaurov vigorously rejected suggestions that Mr Viktor Sidorenko, the deputy atomic energy minister who was travelling on the same aircraft as the plutonium, was in any way connected with the affair."Our minister is a deeply-respected academic. . . . he simply could not be involved in such a business," he said.

Ukraine, another part of the former Soviet Union capable of producing nuclear materials, also denied any involvement in the affair.

Mr Anatoli Chernov, deputy head of the Ukrainian state atomic energy commission, said: "We are not physically or technically capable of producing plutonium 239. This has to be from a country which produces and controls nuclear weapons. It is exclusively a Russian affair. Let them figure it out."

Shooting shatters Zurich's ordered drug scene

By Ian Rodger in Zurich

Zurich's infamous open hard drug scene has been witness to many shocking human dramas in the past few years. But it has been virtually free of violence – as if even drug addicts and dealers agreed to respect the Swiss insistence on order in all things.

No more. In the past month, four people have been murdered near the abandoned mid-town Letten railway station where some 1,000 dealers and addicts huddle together over a thick carpet of syringe wrappers and blood soaked cotton wool.

Last Friday night, a Lebanese youth was shot dead in the back, setting off an unprecedented chain of violence and threats of further violence.

Street fighting broke out between gangs of dealers and between dealers and the police. A police car was overturned and several private vehicles damaged as rumours spread that the police were responsible for the shooting. Then, following the arrest of a Lebanese youth, a group of Lebanese dealers threatened to bomb the city.

The stunned Swiss authorities believe the cause of this deterioration has been the attempt by Lebanese and other Arabs to muscle in on drug dealing in Zurich, a trade hitherto dominated by former Yugoslavs.

Police also believe the violence is related to the sharp fall in the street price of heroin – to about SFr50 (£25) per gram, about a quarter of the price prevailing two years ago. In a bizarre show of power at the weekend, angry Letten dealers withdrew from the market, driving addicts out into the city streets in a desperate search for their fixes.

"We are observing a virtual drug war. The fight for market share has become harder and has escalated in recent months," Ms Monika Stocker, Zurich's social services director, said on Sunday.

The violence first broke out in mid-July when a North African man was knifed to death in the drug quarter. Then early in August, two Algerians were shot in the head.

"We cannot let murders like this happen every week," a spokesman for the city's overstretched police said yesterday. But he had few ideas for preventing them.

Ironically, the escalation has come at a time when the Swiss finally seemed to be getting to grips with their outsized drug problem.

Last year, the federal government authorised a limited experiment in legal distribution of heroin to Zurich addicts, with a view to breaking the criminal distribution system. Next month, parliament is to vote on a bill making it more difficult for immigrant dealers to take advantage of the asylum law to escape detention and expulsion.

Next spring, another 300 prison cells will become available in Zurich. At the moment, prosecutors tend to release minor drug offenders because of the lack of prison accommodation.

For Ms Stocker, it is all too little too late. She says that if the federal government does not soon authorise a widening of the controlled distribution of heroin, the city could act unilaterally by declaring a health emergency.

Such a radical step may not be necessary. The Swiss people, who have long preferred not to recognise their drug problem, may finally have been shocked into an awareness of its seriousness by last Saturday's bombing threat.

And that, in turn, could spur the country's timid politicians to push through long-discussed drug related reform measures.

EUROPEAN NEWS DIGEST

Russians fire at Japanese boats off Kuriles

The Russian coastguard yesterday fired on two Japanese fishing boats in waters off the disputed South Kurile islands, wounding one crew-member, Russian officials said yesterday. The clash was the first time Russia, which has often accused Japanese vessels of poaching in Russian waters, has fired on a Japanese ship and could provoke a serious escalation in the dispute between the two nations over the contested Kurile islands. Japan is trying to reclaim the islands, seized by Soviet soldiers at the end of the World War II and has refused to commit serious government or private funds to Russia because of the dispute. Yesterday's incident, which Russian coastguard officials described as "necessary," suggests Moscow intends to take a tougher line in enforcing its sovereignty over the islands. One Japanese boat is now in Russian custody and the coastguard is searching for the second. *Chrystia Freeland, Moscow.*

Spanish accused over drift nets

The environmental group Greenpeace said yesterday it had found Spanish fishing boats in the Straits of Gibraltar using illegal drift nets of the kind which have provoked the so-called "tuna war" between Spain and France. Greenpeace said its flagship Rainbow Warrior had found some 10 Spanish vessels using drift nets, which have been banned by the Spanish government since 1990, on Sunday night. Greenpeace volunteers managed to pull part of one of the nets out of the water and escape with it. In the Bay of Biscay, Spain's north coast fishing fleet, which uses traditional hook and line techniques to catch tuna, has clashed several times with French, Irish and British boats which it says use drift nets longer than permitted by the European Union. *Reuter, Madrid.*

IMF mission in Ukraine

An International Monetary Fund mission arrived in Ukraine yesterday to help the government work out a programme to stabilise the economy. The Ukrainian government pledged last month to work with the IMF over the next two months to clear the way for Kiev to receive a $700m systemic transformation facility, part of a special fund designed to speed the transition to capitalism for the countries of eastern Europe and the former Soviet Union. The mission is the first to visit Ukraine with a mandate to negotiate a programme. The Group of Seven industrialised nations last month promised Ukraine $4bn in economic assistance – mostly from international financial institutions – if the country pushes ahead with serious reforms. *Reuter, Kiev.*

Meciar ahead in Slovak poll

The party of former Slovak prime minister Vladimir Meciar (left) is maintaining its lead over political rivals just six weeks before Slovak elections on September 30 and October 1. The private Focus agency poll gave Mr Meciar's Movement for a Democratic Slovakia (HZDS) a 28.5 per cent support rating, up from 27.6 per cent in July. The ex-communist Party of the Democratic Left (SDL), scored 15.6 per cent, up from 14.9 per cent in July. Mr Meciar was ousted in a no-confidence vote last March and is now under investigation for questionable direct sales of state-owned enterprises. The three-party governing coalition took third place in the poll with just 10 per cent backing, up from 8.7 per cent in July. *Reuter, Bratislava.*

MMM chief on tax charge

The man at the centre of Russia's biggest investment scandal since the country began to lurch towards a free market economy was charged yesterday with tax evasion, the Itar-Tass news agency said. Mr Sergei Mavrodi, who headed the MMM investment fund that lured millions of Russians into buying its shares with promises of high returns, had been charged as general director of Invest Consulting, part of his corporate empire. Mr Mavrodi, 39, who was arrested on August 4, has also been charged with obstructing an investigation. He could face a jail term of up to five years if convicted on the tax evasion charge. *Reuter, Moscow.*

Albanian trial adjourned

The trial of five Albanian ethnic Greeks was adjourned yesterday after the prosecution dropped charges of treason against them, saying it could no longer use the country's old penal code to interpret some activities. Greece had alleged the trial would be unjust as the Albanian penal code was used by the former Stalinist administration. The other charges against the five, of military espionage for the Greek secret service and the illegal possession of weapons, remained in force. The five accused, who have pleaded not guilty, were arrested last April after a border incident in which two Albanian conscripts were killed inside Albania. Albania accused Greece of staging a cross-border raid, prompting angry denials from Athens. *Reuter, Tirana.*

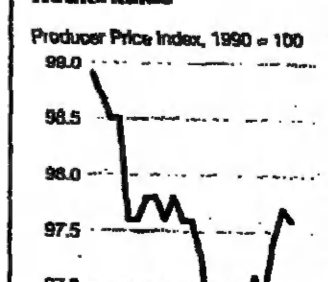
Top Dutch general resigns

A top Dutch general resigned yesterday in protest at defence spending cuts planned by the parties forming the country's next government, the defence ministry said. The Dutch chief-of-staff, Gen Arie van der Vlis, 53, quit over plans to cut almost Fl 1bn (£366.6m) from the defence budget over the next four years, which have been outlined by a tripartite left-right coalition of Labour, Liberals and reformist D66. A new cabinet is expected to be named by Labour leader Wim Kok later this week. *Reuter, The Hague.*

ECONOMIC WATCH

Dutch producer prices down

Netherlands



Dutch producer prices fell 0.1 percentage points in June from the previous month and were unchanged from a year earlier, the central statistics bureau reported. The index, which is preliminary, stood at 97.6 (1990 equals 100). The May figure was revised upward to 97.7 from 97.4, 0.3 points higher than April's. *AP-DJ, Amsterdam.*

■ Norway's trade surplus rose to NKr5.67bn (£536m) in July, 9.6 per cent above the NKr5.18bn a year earlier, according to the national statistical agency.

■ Consumer prices in Hungary increased by 1.3 per cent in July from June and by 20 per cent from July 1993, the MTI state news agency reported. In June, prices rose 1 per cent over May and 19.2 per cent over June last year. Prices were up 18.3 per cent in May over the same month of 1993.

Deng's homeland struggles to match coastal China

Tony Walker on inland Sichuan's efforts to close the development gap

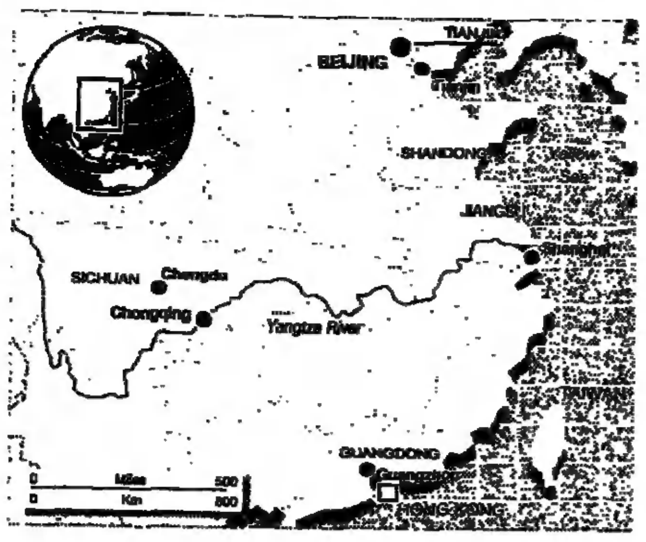
Governor Xiao Yang of Sichuan, China's most populous province, feels a bit like an oriental Sisyphus pushing endlessly a large boulder to the top of a mountain. Trying to close a yawning development gap between his rugged, landlocked province and the booming coastal regions brings more than its share of frustrations.

"I haven't seen the peak yet," he says. "Of course, I understand how difficult it is to balance development in this period of China's economic transformation."

Sichuan, with its population of more than 100m, many of whom live in remote mountainous areas, lags far behind the wealthier coastal provinces of Guangdong, Jiangsu, Shandong and the "city states" of Beijing, Shanghai and Tianjin.

Sichuan's problems of distance from markets and poor infrastructure are typical of those of "inland" provinces. Unbalanced development in which poorer provinces are getting relatively poorer threatens the cohesiveness of China's reforms and risks feeding dissatisfaction among the disadvantaged such as the peasants of the hinterland.

For the proud and resourceful Sichuanese whose favourite son is Mr Deng Xiaoping, China's senior leader, it is painful to contemplate existence as "poor cousins" to the prospering residents of the east coast, especially as Sichuan was the crucible of groundbreaking agricultural and industrial reforms in the late 1970s.



It was, ironically, Mr Deng himself who fuelled the surge of new investment into coastal areas when he launched the second stage of his economic revolution – the first phase began in 1978 – with a visit early in 1992 to southern regions, including Guangdong, adjacent to Hong Kong.

Governor Xiao notes wryly that when he goes to coastal areas these days he is reminded constantly by fellow officials that Sichuan now is the source of a flood of vagabond itinerant workers or *mangliu* (literally "blind roamers") who have streamed out of the province in search of work.

It is in the crowded streets of Chengdu and Chongqing, the province's main cities, and in the verdant but overpopulated rural areas, that the development gap – and enduring poverty – is most obvious.

Human "beasts of burden" – men and women dragging heavily laden two-wheeled carts – are commonplace, and in the fields there is little sign of the mechanisation that is transforming the lives of prosperous coastal peasants, freeing them to engage in more remunerative activities such as work in township and village enterprises.

Mr Chen Kuan Jin, senior economist in Sichuan's Planning Commission, says that in spite of a concerted effort to attract new investment and enliven the local economy through hastening economic reforms the gap with coastal provinces is "growing larger".

Sichuan's economy grew last year by 12.8 per cent compared with the national average of 13.4. Ten years ago it ranked fourth or fifth in China in gross national product: now it is down to sixth place. But it is in new investment that the contrast is starkest.

Last year Sichuan attracted $850m in pledged foreign investment. Utilised investment for Guangdong, whose growth rates were about twice the national average, was $9.65bn. Capital investment in Guangdong last year reached Yn300bn ($35bn) against Yn63bn for Sichuan.

China plans to provide Yn10bn ($1.16bn) in soft loans over the next six years to rural enterprises in remote areas in an effort to stop a widening economic and social gap between wealthy coastal regions and the hinterland, Tony Walker reports.

These funds will augment Yn10bn that has already been earmarked for infrastructure projects in deprived areas. "Ridding central and western China of their high poverty rates is a primary aim," an official of the State Planning Commission told the China Daily newspaper.

In line with the new policy, the state development bank is being asked to re-direct its low-interest lending for infrastructure to inland areas. The move reflects growing concern in Beijing over the social and political costs of increasing disparities between rich and poor areas. One problem has been a drift of poor peasants from inland regions to cities and coastal areas in search of work, threatening public order in places such as Beijing and Shanghai.

Unemployment rates, at 3.4 per cent, are higher in Sichuan than the national average of 2.6 per cent. Wages are about 15 per cent lower than the national average. Some 80 per cent of Sichuan's population of 100m live in rural areas. Of these, 44m are classed as "able bodied workers" but surplus rural labour totals about 20m.

This means that Sichuan has China's largest pool of surplus labour – about one-sixth of a huge army of rural workers nationwide whose livelihoods cannot be sustained by small family holdings.

Sichuanese officials estimate that about 5m peasants have left the province in search of work, drifting to the coastal regions and the larger cities. In a way this has proved a blessing for Sichuan's economy since these itinerant workers are remitting Yn15bn annually to support their impoverished families.

But feelings have been running high among hard-pressed rural workers who sense they are being left behind in China's economic boom. One of China's worst cases of recent rural unrest occurred in June last year when peasants protesting against higher taxes besieged officials in a county headquarters near Chengdu, Sichuan's capital, holding them hostage for several days.

Apart from its problems of excess rural labour and an undeveloped infrastructure, Sichuan is also burdened by a slew of heavily indebted and over-manned state-run industries. A number are defence-related, re-located in the inland province in the 1960s to protect them from attack after Chairman Mao Zedong concluded that a third world war involving China was inevitable.

But the news for Sichuan is not all gloomy: indeed, the central government in Beijing, sensing there are flaws, not to mention risks of social unrest, in a policy of allowing the coastal provinces their head economically in the hope that this would drag the hinterland along with them, is now giving more attention to balancing development.

Additional funds are being allocated for spending on infrastructure such as new airports, railway lines and telecommunications. Tax advantages accruing to the coastal regions are now also being made available to inland provinces.

But for Governor Xiao the task of restoring Sichuan to the front rank is not proving easy. Not least of his difficulties is persuading people, and investors in particular, that Sichuan is more than, in his words, "very remote, full of peasants and a place of exile".

Indonesian sentenced to 17 years in bank scandal

By Manuela Saragosa in Jakarta

The Indonesian entrepreneur at the centre of Indonesia's biggest banking scandal since independence was sentenced to 17 years' imprisonment yesterday and fined Rp30m (£9,000).

Mr Eddy Tansil, owner of Golden Key, a retail and manufacturing group with petrochemical interests, was also ordered to pay Rp500bn and surrender some of his property to compensate for the losses incurred at Bank Pembangunan Indonesia (Bapindo), the state-owned development bank.

Mr Tansil, an ethnic Chinese businessman, was accused of illegally securing a $430m (£278m) loan from the bank by colluding with senior government officials. The loan was never serviced, leaving Bapindo technically bankrupt. Mr Tansil was accused of obstructing government efforts to develop the economy by abusing the loan from Bapindo.

The sentence and fine were lighter than expected. Prosecutors had asked for life imprisonment and fines and compensation totalling Rp830bn.

Mr Tansil is the second person to be convicted in the Bapindo scandal.

Last month, Mr Maman Suparman, manager of a Bapindo branch, was sentenced to nine years for his role in extending the loan. Mr Tansil is one of six people involved in the scandal. Two Bapindo directors are still to appear in court and trials are proceeding against two others.

Over the past six months, prosecutors have been trying to establish how Mr Tansil, who had little capital to back him and had a history of unsuccessful ventures, could have qualified for the loan without any collateral.

The answers are alleged to lie with Mr Sudomo, a former minister in charge of political and security affairs and now a government adviser, Mr J B Sumarlin, former finance minister and now a chairman of the national audit agency, and Mr Nasruddin Sumintapura, a former junior finance minister.

So far, Mr Sudomo has appeared as witness in one of the trials, with Mr Sumintapura and Mr Sumarlin due to be witnesses in coming weeks. Mr Sudomo admits he authorised the Bapindo loan for Mr Tansil and Mr Sumarlin is alleged to have overseen the loan.

It remains to be seen whether the government goes further than just a showcase trial with Mr Tansil as sacrificial lamb.

Indonesians have used the case as a rallying point against institutionalised corruption. Since the start of the trials, demonstrations have taken place demanding that Mr Sudomo, Mr Sumarlin and Mr Sumintapura also face trial.

Bankers say the case marks the start of a new era in Indonesia's banking history.

The Bapindo scandal prompted Indonesia's finance minister, Mr Mar'ie Muhammad, to disclose the extent of bad loans at state banks, many of which were brought about by illegal collusion between lenders and borrowers. According to Mr Muhammad, 21.2 per cent of state banks' loans were bad or doubtful at the end of 1993, compared with 17.4 per cent a year earlier and only 6 per cent in 1990.

The figures should be treated with caution because the state banks themselves are the source for them and they could be far worse, bankers say.

Seoul says North may collapse quickly

By John Burton in Seoul

South Korea should be prepared for a sudden and unexpected reunification with North Korea, President Kim Young-sam warned yesterday.

Mr Kim expressed hope for a "gradual and step-by-step" reunification, but indicated that North Korea's economic problems could cause a quick collapse of the country and its absorption by the South.

"The competition between the South and the North over which can create a better society is over," he said in a speech marking the 49th anniversary of Korea's liberation from Japanese colonial rule. "We must gather the strength and courage needed to endure the pain and sacrifice any unification may entail."

The South Korean leader formally offered to provide North Korea with the capital and technology to build light water reactors if Pyongyang accepts full nuclear inspections. North Korea said last week it would agree to replace its graphite reactors with safer light water ones as part of a deal with the US over its nuclear facilities, which are suspected of being used to produce atomic weapons.

South Korea is competing against Russia for the supply of the light water reactors. Pyongyang has said it prefers the Russian models because of its experience in operating Soviet-designed reactors. South Korean reactors are based on US technology.

Mr Kim described the offer of nuclear technology as the first investment in a "joint project for national development" between the two Koreas.

Absent from the president's speech was the hostile rhetoric South Korea has used to attack North Korea in recent weeks, following the death of North Korea's President Kim Il-sung.

South Korea has conducted a propaganda campaign against the North to counter expressions of sympathy for the late president from radical students, who regard the former North Korean leader as a nationalist hero for his fight against Japanese colonial rule.

As the students were conducting widespread and sometimes violent demonstrations in Seoul, the president warned that "any challenges to our free and democratic system will not be tolerated."

Mr Kim pointedly left out of his speech any proposal for resumption of a planned inter-Korean summit or other forms of bilateral dialogue.

Hopes revive of Japanese compensating war victims

By Gordon Cramb in Tokyo

Japan aims to "address issues which remain unresolved since the war," Prime Minister Tomiichi Murayama said yesterday. His statement revives hopes in Asia that Japan will provide financial compensation for victims (or their descendants) in territory occupied before 1945.

At a ceremony in Tokyo on the 49th anniversary of Japan's surrender to the allies, Mr Murayama did not elaborate on the unresolved issues but went slightly further than his predecessors in atoning for the actions of the imperial army.

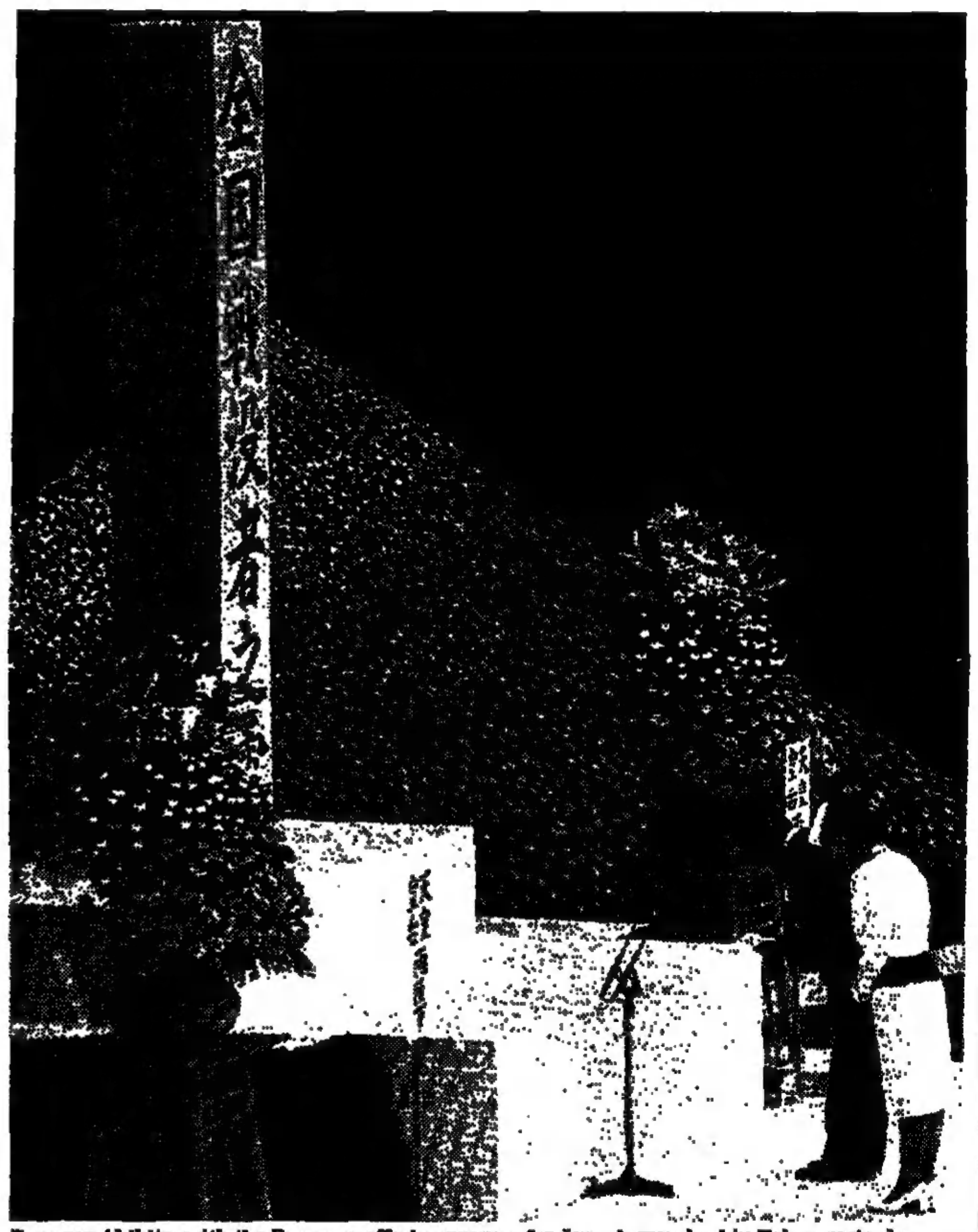
The prime minister spoke of "tragic sacrifices beyond description" inflicted on a large number of people in Asia and elsewhere. He offered "heartfelt condolences to them with a deep repentance". Officials said Mr Murayama, aged 70 and a life-long socialist and pacifist, had chosen the remorseful phrases himself to insert into a prepared speech.

A year ago, the then premier, Mr Morihiro Hosokawa, raised hopes of financial redress after acknowledging the forces' misdeeds. Japan insists the issue of reparations was resolved in the San Francisco peace treaty with the US, but the possibility of setting up a substantial fund to provide benefits over 10 years is said to be under discussion ahead of the 50th anniversary next year.

Japanese are suspected in Asia of insufficiently recognising the consequences of their country's wartime aggression and mourning only their own 3m war dead, the actual purpose of yesterday's government-sponsored service. A separate and more controversial gathering at the Yasukuni Shrine, where war criminals are among those commemorated, drew seven cabinet ministers, despite a request from Mr Murayama that they stay away.

Six of the ministers were from the Liberal Democratic party and one from the New Harbinger party, partners of Mr Murayama's Social Democratic party in the six-week-old coalition.

On Sunday, an LDP minister resigned after suggesting the Japanese occupation benefited parts of Asia, bringing independence from European powers, an increased literacy rate and resultant economic success. Mr Shin Sakurai was replaced as head of the Environment Agency by Mr Sohei Miyashita, also from the LDP.



Emperor Akihito, with the Empress, offering prayers for Japan's war dead in Tokyo yesterday AP

Industry output shows rise

By Gordon Cramb

Industrial output in Japan grew in June compared with a year earlier, for the first time in 33 months, according to revised figures from the Ministry of International Trade and Industry yesterday.

It said production was up 0.6 per cent, compared with a fall of 1.8 per cent in May and an initial June estimate, released late last month, which showed neither growth nor decline.

The upward revision is further evidence that a cautious revival may be in process after the country's longest post-war recession. Output was up by a seasonally adjusted 2.7 per cent compared with May. Miti had previously put that figure at 2 per cent.

Officials warned that July data could show a fall both on a month-on-month and year-on-year basis. Drought is disrupting water supplies to high-volume users such as the chemicals industry, and overall inventory adjustments have not ended.

Of individual sectors, machinery lagged, with shipments down and stocks up. Many consumer industries are benefiting from the hot weather, and Miti singled out demand for *sake* as a factor in the strong June performance. Shipments of all products rose an unadjusted 2 per cent from June 1993, the first year-on-year rise in 15 months.

Swoop exposes acute dilemma faced by Arafat

Hamas members seized after Israeli warnings

By Julian Ozanne in Jerusalem

Palestinian security forces yesterday rounded up some 35 members of the extremist Hamas Islamic movement after Israel threatened to halt peace talks until the Palestine Liberation Organisation curbed guerrilla attacks against Jewish settlers and soldiers.

The move, which could ignite violent conflict among Palestinians, has exposed the acute dilemma faced by Mr Yassir Arafat, PLO chairman. If he does not take stiff measures against Hamas, the peace process momentum will quickly decline; if he does crack down on Hamas, seen by many Palestinians as freedom fighters against continued Israeli occupation of Arab land, he risks unpopularity and the threat of civil war.

Israel's Premier Yitzhak Rabin welcomed the arrests, calling it a "good sign" after a spate of attacks by Hamas gunmen on Israelis in the Gaza Strip. In Damascus, Hamas condemned the crackdown, accusing Mr Arafat of "playing the role of the enemy's army", and said it would continue the armed struggle against Israel.

Earlier, Mr Rabin had visited the Jewish settlement block in the Strip and toured the road in Gaza where Hamas guerrillas killed an Israeli and wounded six others in ambushes on Sunday. "It is inconceivable we will continue the process without seeing on the part of the Palestinian Authority a serious effort to deal with those terrorist elements," Mr Rabin said.

The Israeli military said there had been 39 attacks by Palestinian militants since they redeployed their forces three months ago, and not a single gunman had been arrested by Palestinian police.

Mr Rabin said he had frozen talks on releasing more Israeli-held Palestinian prisoners. Officials said Israel could halt negotiations on reaching agreement on transferring power from Israeli to Palestinian hands over West Bank education, health, taxation, welfare and tourism. Israel could also delay opening a safe corridor between Gaza and Jericho, and setting up Palestinian terminals at the Rafah and Allenby Bridge crossings.

Inflation target will not be met, says bank governor

By Julian Ozanne

Israel's central bank conceded for the first time yesterday that this year's 8 per cent inflation target would not be met.

Mr Jacob Frenkel, Bank of Israel governor, said tight monetary policy had failed to rein in inflation, which is being driven primarily by rising housing prices and public sector wage settlements. He refused to predict the final figure, but declared: "We will not make single-digit inflation this year."

His remarks came hours before the Bank released the July index which showed inflation for the month of 1.1 per cent. At least 0.5 per cent of it was due to housing costs. Bank officials said inflation for the first seven months of this year was 8.1 per cent. If prices kept rising at this rate, 1994 inflation would an "extremely worrying" 13 per cent, raising the prospect of a further interest rate rise soon.

The central bank has raised its interest rate to commercial banks from 10 to 12.5 per cent in three separate increases this year in an effort to meet the government's 8 per cent target, but Mr Frenkel said monetary policy was being "overburdened. It's a mistake to assign all the efforts in attaining the inflation targets to monetary policy alone," he added.

Decreasing housing prices, reducing the budget deficit, continued trade liberalisation, increased competition and reduction of monopolies and tight public-sector wage policies were all critical components of Israel's battle against inflation. Nevertheless, Israel's economy was expected to grow by about 5 per cent this year.

Mr Frenkel was especially concerned about recent government wage pacts and the possibility that increases would be carried over to the private sector.

Central bank officials said they were unhappy about the government's slow progress in moves to reduce housing prices, such as freeing more land for construction.

Taiwan reserves hit $90bn peak

Taiwan's foreign exchange reserves hit a record $90.14bn (£60bn) at the end of June on an influx of foreign funds to invest in Taiwanese shares, writes Laura Tyson in Taipei.

The Central Bank of China also attributed the increase from $87.8bn in May to the weakness of the US dollar and the relative strength of other currencies held by the government. The previous record high was in September 1992 when the reserves reached $89.5bn.

Nigerian newspaper closed by military

By Paul Adams in Lagos

Nigeria's military regime yesterday stopped publication of the country's leading liberal newspaper, the Guardian, in the tense run-up to today's hearing of Mr Moshood Abiola's treason trial.

The Guardian reflects growing opposition to General Sani Abacha's government, especially in Mr Abiola's native south-west, and has criticised annulment of Mr Abiola's election victory last year and his arrest in June. Mr Abiola was charged with treason after declaring himself president.

The closure underlines the weak position of civilian ministers in the provisional ruling council. The publisher of the Guardian is Mr Alex Ibru, the interior minister.

Sunday's edition of the Guardian alleged that the government's hard line against civilian opposition is dictated by traditional rulers and other powerful interests among the Hausa-Fulani tribes in the north, which has dominated government for most of Nigeria's recent history.

Despite attempts by the Nigeria Labour Congress and the constitutional conference delegates to mediate, the government has refused unconditional release for Mr Abiola, who says that he will not accept bail if there are strings attached.

At today's hearing, the judge in the high court, which has been specially convened in Abuja for this case, will rule on the defence petition that the court has no jurisdiction to try it and that the charges be struck out.

Strikes which have paralysed the commercial capital Lagos and the rest of the Yoruba-speaking south-west are partly suspended until today's hearing.

Recent demonstrations in Lagos have led to violence and dozens of civilian deaths. Last month in Abuja police shot and killed demonstrators near the high court.

The strongest threat to the government comes from the strike by the oil workers which has disrupted fuel supplies and forced multinational oil companies, which produce Nigeria's main export, to cut production by at least one quarter of its 2m barrels a day capacity.

The oil workers say they will not return to work until the military hand over power to a civilian government led by Mr Abiola.

White House may make concessions to opponents on social spending plans

Compromise hopes for US crime bill

By George Graham in Washington

Democrats and Republicans edged towards a compromise yesterday that could bring President Bill Clinton's crime bill back before Congress, perhaps as early as this week.

Although both sides said they would not back away from a fight, they showed some willingness to make concessions that could bring the crime bill back to the floor of the House of Representatives for another vote. It was blocked last week on a procedural vote, in a severe rebuff to Mr Clinton.

Mr Leon Panetta, the White House chief of staff, said yesterday the president would not back away from some of the bill's central elements: the provision of an extra 100,000 police officers, the "three strikes and out" rule imposing mandatory life sentences for a third violent crime, and particularly the ban on assault guns.

But Mr Panetta said the White House might be willing to reduce some of the spending included in the bill to finance crime prevention programmes.

Republican critics of the bill have focused on money to fund midnight basketball leagues, designed to provide alternative activities for city youths who might otherwise be roaming the streets in gangs, as a symbol of what they see as wasteful social spending.

Mr Clinton insists that this kind of programme – which is supported by many police and law enforcement associations – is important to give young Americans "something to say yes to".

But White House officials and the Democratic leadership in Congress appeared ready to give ground on some of the programmes.

"If we have to pay the price to take out some good programmes to satisfy the critics, I'm not opposed to doing that," said Mr Thomas Foley, the Speaker of the House.

Mr Newt Gingrich, the Republican whip in the House, continued to urge yesterday that the ban on assault guns should be stripped out of the crime bill and proposed in a separate bill. But he said he would be willing to allow the bill to go forward in return for changes such as a tougher requirement that communities be notified when convicted sex offenders who have been released from prison come to live there.

No such spirit of compromise was to be seen in the Senate, where Mr Clinton's other main legislative objective, the reform of the healthcare system, is now held up in endless debate.

Senator Robert Dole, the Republican leader, said yesterday that he was not conducting a filibuster, but he continued to prevent any votes from being taken.

This may prove to be a political risk, however, in the light of public opinion polls showing widespread disapproval of any filibuster on healthcare reform.

Mr Dole appears to be worried about losing some of his party's centrist members, and on Sunday sharply criticised Senators John Chafee, David Durenburger and John Danforth for trying to drag the rest of the Republican party into a compromise with the bill proposed by Senator George Mitchell, the Democratic leader.

President Bill Clinton arrives at the White House with Mrs Clinton yesterday. He had spent the weekend boosting the bill, including giving a sermon in a Maryland church. Reuter

Growth in industrial output slows to 0.2%

By Jurek Martin in Washington

US industrial production expanded at a moderate 0.2 per cent in July, according to the Federal Reserve, a decrease from the 0.5 per cent advance of June.

The output returns were the last economic data to be published before today's meeting of the Fed's open market committee. Analysts expect the central bank to nudge short-term interest rates higher by increasing the Fed funds rate by 0.25 points to 4.5 per cent.

There was nothing in the industrial production figures to contradict the consistent picture of an economy now growing at a more moderate pace than at the turn of the year, but with inflation apparently well in check.

The 14th consecutive monthly increase in July was cut in half by two particular factors – a drop in the generation of electricity from the unusually high levels of June and the impact of the strike at Caterpillar. Otherwise output of consumer goods rose by 0.4 per cent, in spite of some weakness in the car sector.

Industry in July operated at 83.9 per cent of capacity, the same as in the previous month and similar to the levels of the last five months, but up from 81.3 per cent a year earlier. The Fed noted that primary processing industries such as textiles, petroleum, lumber, iron and steel, were operating at levels above their long-term averages, but that there was less deviation from the norm in advance processing sectors.

Guatemala right wing does well in elections

By Edward Orlebar in Guatemala City

The party of a former general allegedly linked with human rights abuses enjoyed a comfortable lead after early results from Guatemala's congressional elections on Sunday.

The Guatemalan Republican Front party (FRG) led by Christian fundamentalist General Efrain Rios Montt won 36 per cent of the vote, well clear of the right-wing Party of National Advancement (PAN) with 23 per cent, after the supreme electoral tribunal had counted about half the votes.

Voters appear to have been swayed by the general's promise to root out corruption and improve security, while largely ignoring his record during his 17-month de facto rule in 1982-83.

The traditional parties which have dominated Congress in recent years and have come to be viewed with disdain by much of the electorate suffered heavily, particularly in Guatemala City, where the PAN and FRG won 85 per cent of the vote.

But the FRG's victory was undermined by an abstention rate of almost 80 per cent, reflecting the deep-seated scepticism towards Congress, which is widely considered to be deeply corrupt.

The government must gain congressional approval before the end of September on a Paris Club debt rescheduling and push through tax reforms to meet commitments to the International Monetary Fund. Both measures were blocked repeatedly by traditional parties in the old Congress, which have paid heavily for their obstructiveness.

Balaguer poised for new term as tensions rise

By Canute James in Kingston

Mr Joaquin Balaguer will be sworn in today for a seventh term as president of the Dominican Republic amid political confusion and rising tension.

This follows the failure of legislators on Sunday to approve an agreement between the government and opposition to end a three-month political crisis in the Caribbean nation by having a new election next year.

In a surprising concession to foreign and domestic critics who have persistently claimed that he has retained office through a tainted election three months ago, Mr Balaguer had agreed to a new election in mid-November next year. This was accepted by Mr José Francisco Peña Gomez, the loser in the controversial election, who cancelled a series of strikes and street protests planned for this week.

However, the pact between Mr Balaguer's conservative Social Christian Reform Party and the social democrat Dominican Revolutionary Party of Mr Peña Gomez was scuttled on Sunday when the National Assembly voted to hold the new election in May 1996. Deputies from the Revolutionary party walked out in disgust leaving the Reform Party to approve the delay.

Mr Balaguer, aged 87, blind and crippled, at least appears ready to envisage an end to his political career, as the assembly approved an amendment preventing a president from having consecutive terms.

Tensions in the country heightened when the elections board, after being silent for eight weeks, announced a fortnight ago that Mr Balaguer had defeated Mr Peña Gomez in the May 16 election by just over 22,000 votes, less than 1 per cent of the electorate.

Mr Peña Gomez, who would have been the country's first black president if forecasts by pre-election polls had materialised, was unwilling to accept the result offered by the elections board, which is funded and controlled by the government. The opposition leader and foreign observers of the election had concurred that about 200,000 Dominicans who should have ben eligible to do so, could not vote, and that most of these appeared to be Mr Peña Gomez' supporters.

Mr Balaguer's promise of an early election was clearly intended to mollify not only Mr Peña Gomez, but also the US. Mr Warren Christopher, the US secretary of state, called for new elections because the allegations of fraud were widespread enough to have affected the outcome.

It is not the first time that the ruling Reform Party has been accused of less than honest methods in helping Mr Balaguer to a slim victory, but foreign interest in the recent election has been high because Dominican political developments will influence the situation in Haiti. The two countries share the island of Hispaniola.

Mr Balaguer has long opposed international efforts to secure the return of President Jean-Bertrand Aristide of Haiti, who was overthrown and exiled three years ago. Mr Peña Gomez is more inclined towards supporting efforts to pressure Haiti's military leaders into leaving, allowing Mr Aristide to return.

Inflation success translates into poll support for Cardoso

Architect of Brazil's economic plan is now front runner in Brazil's October presidential election race, writes Stephen Fidler

The outspoken governor of the Brazilian state of Amazonas, Mr Gilberto Mestrinho, has no doubt who will be his country's next president, even though he says he will vote for another candidate in the first round of the election on October 3. "Brazil's president is already chosen and it is Fernando Henrique Cardoso. The trend in his favour is irreversible," he says.

For the first time last week, opinion polls confirmed a significant lead for Mr Cardoso, the former finance minister who fathered the country's popular anti-inflation plan. Two polls last week showed him seven points ahead of his main rival, Mr Luiz Inácio Lula da Silva of the left-wing Workers' Party (PT), with support for Mr Cardoso running at about 35 per cent of the electorate.

If the gathering trend in favour of Mr Cardoso continues, a run-off ballot on November 15 of the two leading candidates may be unnecessary. Mr Paulo Calmon, a political scientist at the University of Brasilia, says: "It's possible that Cardoso could win in the first round." To do this he must win more votes than the other six candidates together.

If there is a second ballot, Mr Calmon and others think Mr Cardoso stands to gain more votes from supporters of the most prominent losing candidates in the first round, probably Mr Orestes Quércia of the Democratic Movement party (PMDB) and Mr Leonel Brizola of the Democratic Workers party (PDT).

Mr Cardoso's gathering support is based mainly on a single issue: the economic plan. In the six weeks after the introduction of the real, Brazil's new currency, inflation has dropped sharply. After price rises of 50 per cent in June, inflation fell to 6 per cent last month, and may be as low as 2 per cent this (though the forecast is highly uncertain). As a result, up to 70 per cent of Brazilians say they favour the plan.

"The only platform in this election is the economic plan," says Mr Bolivar Lamounier, a São Paulo academic and supporter of Mr Cardoso. As a result, Mr Cardoso is vulnerable to reverses in the plan's early successes. Reversals could come from political pressure to raise the wages of the military and federal workers – a subject that President Itamar Franco frequently raises – or from a consumer boom.

However, with his support falling away, Mr da Silva, widely known by his popular political name Lula, cannot sit back and hope the economic plan goes awry. He has already been forced to tone down his attacks on it to avoid accusations of being a friend of inflation. Instead, he has criticised it as being too narrow in conception and for not addressing Brazil's deep social ills – a so-far unsuccessful attempt to manoeuvre the campaign into areas where political analysts agree Mr da Silva is strong.

He has also stepped up criticism of the alliances that Mr Cardoso has made with the traditional power brokers of Brazilian politics such as Mr Antônio Carlos Magalhães who, from his base in the north-eastern state of Bahia, controls the powerful right-wing Liberal party (PFL) which had strong links with the pre-1985 military government.

Mr da Silva's campaign is drawing strong parallels between the two Fernandos – the disgraced former President Collor who beat him into second place in 1989 and Mr Cardoso. "Collor is not a thing of the past, he's a reality of the present. His friends are still there in the Cardoso campaign," he told foreign journalists in São Paulo at the weekend.

Yet, a negative campaign carries risks for the PT too. For one thing, Brazilian voters have in the past not responded positively to such tactics. And, says Mr Lamounier, "if the PT starts throwing mud around, it's potentially equally damaging for Lula". For example, Mr da Silva may be vulnerable if the Cardoso campaign emphasises his links to the fractious parties of the extreme left in Brazil.

Many political analysts reckon Mr da Silva's only answer would be to start building party alliances of his own. However, he is constrained by the likely criticism he would receive from within his own party ranks for practising traditional party politics.

From Mr Cardoso's point of view, his political alliances deliver important campaign advantages. The amount of free television air time candidates have – they are together allowed one hour a day four days a week – are linked to the number of supporters they have in the out-going congress. Mr Cardoso's campaign broadcast takes up more than a quarter of an hour against Mr da Silva's seven minutes. The alliances also deliver important backing in key parts of the country.

Whether they will help Mr Cardoso should he come to office is another matter. Most economists agree that any candidate would need to push through important changes to the complex 1988 constitution to complete the fight against inflation, and that will require large scale support in congress, which also faces elections on October 3.

"Governability: that's what this campaign is all about," say backers of Mr Cardoso such as Mr Lamounier. "I don't think the PT is in a position to govern this country." By contrast, he says, Mr Cardoso knows what must be done and will have the strong initial power of the presidency to push through necessary reform.

On the other hand, the PT argues that Mr Cardoso has bitten off more than he can chew in building alliances with crafty machine politicians such as Mr Magalhães.

Some independent observers are sceptical too. Mr Jose Augusto Guilhon of the University of São Paulo is not optimistic that the coalition built by Mr Cardoso would stay together for long.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.2	99.4	85.0
1987	105.6	100.7	103.8	96.7	76.2
1988	109.9	103.2	106.9	99.1	71.0
1989	115.2	108.5	110.0	101.1	74.9
1990	121.5	113.9	113.8	104.3	73.4
1991	126.6	116.3	117.3	107.8	74.2
1992	130.4	117.7	120.2	108.1	74.2
1993	134.3	119.2	123.4	105.5	78.8
3rd qtr.1993	2.8	0.7	2.5	−0.5	76.2
4th qtr.1993	2.7	0.3	3.0	−1.7	76.7
1st qtr.1994	2.5	0.2	3.0	−1.1	77.0
2nd qtr.1994	2.4	−0.3	2.4	−1.8	75.9
August 1993	2.8	0.5	2.5	−0.7	75.9
September	2.7	0.4	2.5	−0.4	75.4
October	2.8	0.2	2.5	−1.5	75.9
November	2.7	0.4	3.3	−0.8	77.0
December	2.8	0.2	3.3	−2.7	77.3
January 1994	2.5	0.2	2.5	−1.1	77.8
February	2.5	0.2	3.3	−0.9	77.0
March	2.5	0.2	3.3	−1.3	76.4
April	2.4	−0.4	2.4	−1.3	76.5
May	2.3	−0.4	2.4	−1.6	76.1
June	2.5	0.0	2.4	−2.2	75.3
July	2.8	0.6	2.4	−2.1	73.4

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.6	95.3	101.4	103.4	118.4
1987	101.2	92.5	103.1	100.6	122.9
1988	102.2	92.3	107.8	96.2	131.0
1989	104.9	94.2	114.0	96.1	123.5
1990	106.2	95.7	120.1	98.3	108.3
1991	111.8	96.8	124.2	101.8	114.7
1992	113.9	95.8	125.6	111.0	116.3
1993	115.3	94.3	125.8	116.8	134.0
3rd qtr.1993	1.6	−1.8	0.4	5.3	140.7
4th qtr.1993	1.2	−2.1	−0.1	4.6	137.6
1st qtr.1994	1.4	−2.2	2.9	3.7	137.8
2nd qtr.1994	0.6	−2.0			139.8
August 1993	2.0	−1.8	2.3	2.6	144.0
September	1.3	−2.0	1.5	7.2	139.3
October	1.2	−2.1	0.6	7.0	138.5
November	0.9	−2.1	1.7	3.4	138.7
December	1.3	−2.2	−1.1	3.4	135.9
January 1994	1.4	−2.1	4.5	3.4	134.5
February	1.4	−2.2	1.7	5.1	139.4
March	1.3	−2.3	2.4	2.6	139.4
April	0.8	−2.2	1.9	0.8	141.1
May	0.6	−2.0	0.6	0.0	139.1
June	0.5	−1.9			139.3
July	−0.3				142.7

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.8	103.8	107.4
1987	100.1	95.0	108.0	107.1	110.9
1988	101.4	95.2	113.0	106.9	110.0
1989	104.2	99.3	117.3	108.0	107.8
1990	107.0	101.0	123.8	110.3	110.7
1991	110.7	103.4	131.8	115.0	108.1
1992	115.1	104.9	138.6	121.5	108.8
1993	119.8	104.8		126.9	110.2
3rd qtr.1993	4.2	−0.2	n.a.	1.6	109.6
4th qtr.1993	3.7	−0.2	n.a.	−1.7	108.9
1st qtr.1994	3.3	0.2	n.a.	−2.6	107.1
2nd qtr.1994	3.0	0.3	n.a.		107.7
August 1993	4.2	−0.2		0.0	109.8
September	4.0	−0.3		1.6	111.2
October	3.9	−0.2		0.2	111.1
November	3.6	−0.2		−2.3	109.6
December	3.7	−0.1		−2.9	109.0
January 1994	3.5	0.0		−0.6	107.2
February	3.4	0.2		−4.8	105.6
March	3.2	0.3		−2.5	107.5
April	3.1	0.1		−6.7	106.9
May	3.0	0.4		−6.3	107.6
June	3.0	0.4			106.1
July	2.9				109.3

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.5	103.4
1987	105.9	97.8	107.8	103.0	104.6
1988	108.6	102.8	111.1	104.0	102.2
1989	112.6	108.4	115.4	105.3	99.8
1990	116.5	107.1	120.6	109.5	103.6
1991	120.2	105.8	125.8	113.8	102.2
1992	123.1	104.0	130.3	115.8	105.8
1993	125.6	101.1	133.7		108.5
3rd qtr.1993	2.2	−3.4	n.a.	n.a.	106.5
4th qtr.1993	2.1	−2.2	n.a.	n.a.	107.7
1st qtr.1994	1.7	−1.5	n.a.	n.a.	107.5
2nd qtr.1994r	1.7	−0.1	n.a.	n.a.	107.4
August 1993	2.2	n.a.	–	n.a.	105.4
September	2.3	n.a.	2.3	n.a.	107.5
October	2.2	n.a.	–	n.a.	107.4
November	2.2	n.a.	–	n.a.	107.0
December	2.1	n.a.	2.2	n.a.	108.5
January 1994	1.9	n.a.	–	n.a.	107.5
February	1.8	n.a.	–	n.a.	106.9
March	1.5	n.a.	2.0	n.a.	107.9
April	1.7	n.a.	–	n.a.	106.5
May	1.8	n.a.	–	n.a.	107.4
June	1.8	n.a.	2.3	n.a.	108.2
July	1.7	n.a.	–	n.a.	108.9

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	101.3
1987	111.0	103.2	111.6	105.6	102.0
1988	116.5	106.8	118.4	109.7	100.2
1989	124.2	113.1	125.6	112.3	103.6
1990	131.8	117.8	134.7	118.8	106.2
1991	140.5	121.7	147.9	131.3	105.5
1992	147.7	124.0	155.9	136.8	101.9
1993	153.9	128.7	161.2	139.4	97.3
3rd qtr.1993	4.3	4.3	4.1	2.1	87.9
4th qtr.1993	4.1	3.9	3.8	−1.4	85.7
1st qtr.1994	4.2	3.5	4.2		85.1
2nd qtr.1994	4.0		4.1		87.4
August 1993	4.4	4.4	4.1	n.a.	87.9
September	4.2	4.3	4.2	n.a.	87.0
October	4.3	4.1	3.9	n.a.	86.6
November	4.2	3.9	3.9	n.a.	85.6
December	4.0	3.7	3.6	n.a.	84.7
January 1994	4.2	3.5	4.0	n.a.	85.2
February	4.2	3.6	4.3	n.a.	85.5
March	4.2	3.2	4.5	n.a.	84.8
April	4.1	3.0	4.6	n.a.	87.4
May	4.0	3.2	4.6	n.a.	87.8
June	3.7		3.0	n.a.	86.6
July	3.6			n.a.	85.9

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	101.4	107.7	104.1	94.2
1987	107.7	104.9	116.3	106.6	94.8
1988	113.0	108.7	126.2	109.5	102.3
1989	121.8	113.9	137.2	114.4	101.3
1990	133.3	121.0	150.1	122.7	102.6
1991	141.2	127.5	162.4	131.3	105.5
1992	146.4	131.5	173.1	134.0	103.5
1993	148.7	136.7	180.9	134.3	95.7
3rd qtr.1993	1.8	4.3	4.4	1.1	97.1
4th qtr.1993	1.6	3.9	3.9	1.7	97.1
1st qtr.1994	2.4	3.3	4.8	2.0	98.5
2nd qtr.1994	2.6	2.2			97.0
August 1993	1.7	4.3	3.6	1.1	97.2
September	1.8	4.3	4.5	1.8	96.6
October	1.4	4.0	3.8	2.2	98.2
November	1.4	3.6	4.0	1.9	97.1
December	1.9	4.0	4.0	1.1	97.9
January 1994	2.5	3.7	4.8	1.8	99.8
February	2.4	3.4	4.4	1.8	98.2
March	2.3	2.8	5.3	2.6	97.5
April	2.6	2.2	4.7	0.9	97.0
May	2.6	2.1	4.0	1.7	96.8
June	2.6	2.1			97.2
July		1.9			95.8

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 15 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

هكذا في الأصل

Unfinished business in Uruguay Round

Talks under Gatt auspices on four key services sectors have quietly got under way again, writes Frances Williams

Trade negotiators in the Uruguay Round of global trade talks can claim as one of their biggest achievements the writing of a framework of rules which put all services under international fair trade disciplines for the first time.

But securing specific commitments to open individual services markets to foreign competition proved a daunting task – so much so that when the Round concluded last December some key sectors were left undone.

Largely unnoticed, negotiations on the four unfinished areas – financial services, maritime transport, basic telecommunications and labour movement – have quietly restarted under the auspices of the General Agreement on Tariffs and Trade.

These sectors represent perhaps 10 per cent of total cross-border trade in commercial services of more than $1,000bn last year, and much more when business by foreign subsidiaries is taken into account.

For the rapidly-growing sectors of basic telecommunications and financial services in particular, the trading opportunities offered by liberalisation on a global scale would be immense. But these high stakes also guarantee some rough bargaining to come.

Basic telecommunications: It became clear early in the Uruguay Round negotiations that there were going to be big problems in securing agreement to open the basic telecommunications sector (mostly voice telephone networks) to foreign companies. This was mainly because in many countries the telephone network is still the exclusive domain of state-owned monopolies.

However, all over the world, state telecoms companies are being privatised and/or deregulated and trade officials hope the timing may be right to start bringing down trade barriers on a global scale.

The 22 countries involved (the 12 EU countries counting as one) are due to wrap up the talks by April 1996. The obstacles remain formidable. But rapid technological advance and the development of new services (such as multimedia) are speeding liberalisation almost irrespective of what negotiators discuss in Geneva.

Maritime transport: Talks foundered late last year when it became clear Washington would offer virtually nothing on ocean shipping. Though the US claims to have a fairly open deep-sea shipping market, the sector is in effect subsidised and protected by a cargo reservation system that requires certain ocean-going freight to be transported by US carriers.

Under pressure from Greece and Denmark, the EU took its own modest offer off the table altogether, while Japan curtailed its commitments. In the end the US and EU agreed neither would offer anything at that stage, though 32 other nations, including Japan, have done so.

The possibly forlorn hope, given the inordinately influential US shipping lobby, is that by June 1996, when the talks are due to end, Washington will be forthcoming enough to persuade Japan and the EU to restore their original offers. Even then many restrictive practices in shipping – such as shipping conferences which tie up routes between operators – would remain in being.

Financial services: The US nearly scuppered the entire services negotiations last year when it proposed a two-tier market-access arrangement for financial services that would have discriminated against Japan and some developing countries deemed to have done too little to open their markets.

This idea directly contravened the basic most-favoured-nation non-discrimination principle on which the open international trading system is founded and led to threats by trading partners to dilute or withdraw their own offers.

Under a Gatt-brokered compromise, the US agreed to open its financial services market to all-comers for six months after the Uruguay Round comes into force next year, to allow others to improve their offers. If the improvements are not to Washington's liking, it may then refuse MFN access for new market opportunities. These might include the planned lifting of restrictions on interstate banking or relaxation of the demarcation between investment and deposit banking.

Though there is to be a multilateral negotiating group on financial services, which will hold its first meeting in September, this issue is in essence a bilateral argument between the US and Japan and is being discussed in the so-called framework talks intended to prise open Japan's markets.

Labour movement: At the instigation primarily of India, Uruguay Round negotiators agreed last December to hold further negotiations on the "movement of natural persons". This concerns people moving temporarily abroad to provide services.

India, which has a big software industry exporting both computer programmes and software writers, was disappointed that most countries confined liberalisation offers to the transfer of company managers and specialist staff.

The negotiations on labour movement are due to end at the same time as the financial services talks, six months after the Uruguay Round comes into force. But it is doubtful if much will be achieved, since few nations are keen on encouraging foreign workers.

British trade with Malaysia in surplus despite boycott

By Kieran Cooke in Kuala Lumpur

Britain's trade with Malaysia has recorded a healthy surplus in the first six months of the year, despite a ban by the Malaysian government on giving contracts to UK companies.

According to figures published in Kuala Lumpur, UK exports to Malaysia rose 80 per cent in the period to £666m ($1bn). Meanwhile, Malaysia's exports to Britain dropped by 24 per cent to £581m.

Malaysia imposed its ban on British companies in February this year in retaliation over reports in the London press alleging that a British company had tried to offer bribes to senior Malaysian officials.

The Malaysian government was also angered by the publicity surrounding the granting of British aid for construction of the Pergau dam and the parliamentary inquiry into its linkage to multi-million-pound Malaysian purchases of British defence equipment.

While British officials would not comment on the latest trade figures, it is thought that a large portion of the goods exported by Britain to Malaysia over the last six months resulted from contracts signed before the ban was imposed.

The trade figures are likely to have included British defence equipment, including British Aerospace Hawker fighter aircraft, delivered recently to Malaysia under the terms of a controversial 1988 memorandum of understanding on defence sales signed by former prime minister Mrs Margaret Thatcher and Dr Mahathir Mohamad, her Malaysian counterpart.

Taiwan computer products boosted

By Laura Tyson in Taipei

The strength of the yen has spurred Taiwan's exports of computer-related products to Japan, but not enough to turn around the latter's bilateral trade surplus.

Taiwan's exports to Japan of information products, including hardware and software, jumped 67.5 per cent in the first half of 1994, compared with a year earlier, according to the Taiwan Industrial Development Bureau. Such exports are expected to surpass $450m for the year, against $232m last year.

The Taiwan dollar has fallen by nearly a quarter against the yen in the last year. The bureau predicts Taiwan-made information products will make up 17 per cent of Japan's computer market by the end of the year.

Japanese demand was boosted by increased demand for DOS software, which Taiwan produces relatively cheaply, as it is one of the main producers of IBM-compatible personal computers. DOS programs are the basic operating software for IBM-type PCs.

However, Taiwan's computer industry remains heavily reliant on expensive high-technology imports, mainly from Japan. Key components including the liquid crystal display for computer monitors, hard disk drives, and more advanced memory chips are bought from Japan.

Imported components make up roughly half the production cost of a personal computer made in Taiwan. That figure contributes to Taiwan's trade deficit with Japan, which was $14.42bn in 1993 and is forecast to top $16bn this year.

Taiwan ranked fifth in output of computer hardware products after the US, Japan, the UK and Singapore in 1993, according to government figures. Revenues for the information sector (hardware, software and services) climbed 15.5 per cent to $10.8bn, of which $1.1bn was generated from software and services.

Gaza town to have $60m port built

By Charles Batchelor, Transport Correspondent

Agreement has been reached on the construction of a $60m port near Gaza town, in a move intended to provide a boost to the economy of the newly autonomous Gaza Strip.

An international consortium headed by Ballast Nedam, the Dutch dredging and construction company, has signed a turnkey contract with the Palestinian National Authority, the organisation representing the Palestine Liberation Organisation, which has taken control of the Gaza strip.

The new port will be the first commercial harbour on the Gaza strip, now served only by a fishing jetty. It will be built to take vessels of up to 5,000 dwt and will have a water depth of 9 metres.

The port will be built in shallow water to the south of Gaza town and will include a breakwater. It will open up the Gaza Strip to trade which has previously been constrained by the need to move goods through neighbouring Israeli ports.

It is being financed with Dutch, French and Italian government aid. When final financial approval has been given in about three months, dredging and construction work is expected to take a further year.

The other members of the European Gaza Development Group are Grabowsky & Poort, Dutch engineering consultancy; Spie Batignolle, French construction group; and Sistema Ingegneria of Italy.

Minicars feel squeeze in Japan

By Gordon Cramb in Tokyo

Imported cars are more popular than ever in Japan, but there is one segment of the market in which foreign makers have been unable to find space: the so-called minicars.

Not *any* minicars – the Rover Mini does not qualify under the Japanese definition. Nor does any other foreign car. The tightest parking space in Tokyo is a rectangle of 3.3 by 1.4 metres, as delineated by the transport ministry, which uses these measurements as a guide to what is a minicar.

The ministry has this month begun to consider increasing the permissible length by 10cm. But the Mini, which fits lengthways, is 4cm too wide. And its engine is too big. The maximum displacement is 660cc, though Japanese makers such as Subaru, Suzuki and Daihatsu commonly fit turbo-chargers to boost power.

About 1.5m minicars are sold each year, and their owners benefit from sharply lower tax and insurance when they buy the car and reduced charges for roadworthiness inspections in subsequent years. In addition, unlike city owners of other vehicles, they do not have to produce a police certificate showing they have somewhere to put the car at night.

The showroom price of a Mini Mayfair is within Y2,000 ($20) of that for a Daihatsu Mira. But according to the Japan Automobile Importers Association, the difference in getting it on the road for a year grows to Y80,320, even before paying the landlord a hefty square footage for using a corner of his backyard.

Rover Japan says that if its Mini met the ministry's minicar specifications, costs of owning one for five years would fall by about a fifth. It is among importers which – through the European Business Community Council, a grouping of EU chambers of commerce – is calling on the transport ministry to consider not just specifying a longer minicar so that not only local makers can measure up, but abolishing the category altogether.

Standards for minicars in Japan have been progressively brought closer to those of regular passenger vehicles since they were introduced as a post-war way of enabling manufacturers of motorcycles and agricultural machinery to join the automotive boom.

It led to a crowded car market, but one where minicar protection has helped enable companies such as Suzuki to stay in the black during domestic downturn.

The latest change in length, proposed this month, is to allow them to meet the same safety requirements for a frontal impact as larger cars.

Transport ministry officials argue that the distinction between minicars and others is relevant to energy efficiency. Mr Hitoshi Usami, a deputy director of its roads bureau, says that Japan's small land mass and narrow streets also justify its retention.

The Ministry of International Trade and Industry is more ambivalent, pointing out that Toyota and Nissan, the two biggest domestic car makers, have no direct involvement in minicars and see almost as little advantage from the distinction as foreign suppliers do.

"The benefits are lost as the lengths are stretched," a Miti official said yesterday.

The Japan Automobile Manufacturers Association, which groups domestic producers, could not agree whether to ask for an increase in engine size to go with the longer body profile, and minicar makers are said themselves to be divided about what happens next.

No US maker has a subcompact model which comes close to minicar requirements, but as Mr David Blume, Rover Japan marketing director, puts it, "Europe has a lot of strength at that end of the market." Fiat's new Cinquecento, like Rover's quarter century-old Mini, loses out not on length, but because it is 8.7cm too wide and packs 240cc too much capacity under the bonnet.

NEWS: UK

European judgment cuts fees

By Michael Cassell and Andrew Jack

Companies House, the official repository for corporate financial information, is to reduce by half the fees for registering companies and for the annual submission of returns to avoid a legal battle following a recent judgment in the European Court of Justice.

The decision, effective from October 1, is expected to wipe out the annual contribution made by Companies House to the Department of Trade and Industry, which last year stood at £17m.

Nearly one million limited liability companies are registered with Companies House, an executive agency of the DTI, and last year 115,000 new companies were incorporated for the first time.

The DTI move follows a European Court ruling involving an Italian company which interpreted a 1969 EC directive to mean that fees for registering a company must be restricted to the administration costs involved.

Government defends EU directive decision

By Kevin Brown, Political Correspondent

The prospect of a government climb-down on disabled employment was receding last night after Mr Michael Portillo, employment secretary, said he could see no legal basis for the reinstatement of the priority suppliers scheme.

Mr Portillo, who withdrew government departments from the scheme last week, said he had written to the European Commission asking whether the scheme could be reconciled with an EU directive on public procurement which took effect in July.

"I would like to keep the scheme if I can, but my legal advisors tell me that it is just unlawful to maintain it since this new directive. That legal advice is absolutely unambiguous," he said.

Mr Troels Kroeyer, the Commission spokesman, urged the government to work with Brussels to find a way of reconciling the scheme with the directive, which was not intended to affect disabled workers.

Commission officials said they were bemused by the government's interpretation of the directive, which was approved with British support in June 1993, when Mr David Hunt was employment secretary.

They said Britain had not raised the impact of the directive on the scheme, which allows companies employing mainly disabled workers to make a second bid for government contracts to match the winning tender.

The issue has not been discussed by ministers during the negotiations over the directive, which took place when Mr Portillo was chief secretary to the treasury.

However, British officials threw doubt on Commission claims that the decision to withdraw government support for the scheme came as a complete surprise.

Mr Martin Bangemann, the industry commissioner, is understood to have written last week to Mr Douglas Hurd, foreign secretary, informing the government that the Commission was investigating the legality of the scheme.

Mr Portillo said the government would not accept a compromise such as agreement by the Commission to "turn a blind eye" to the continuation of the scheme.

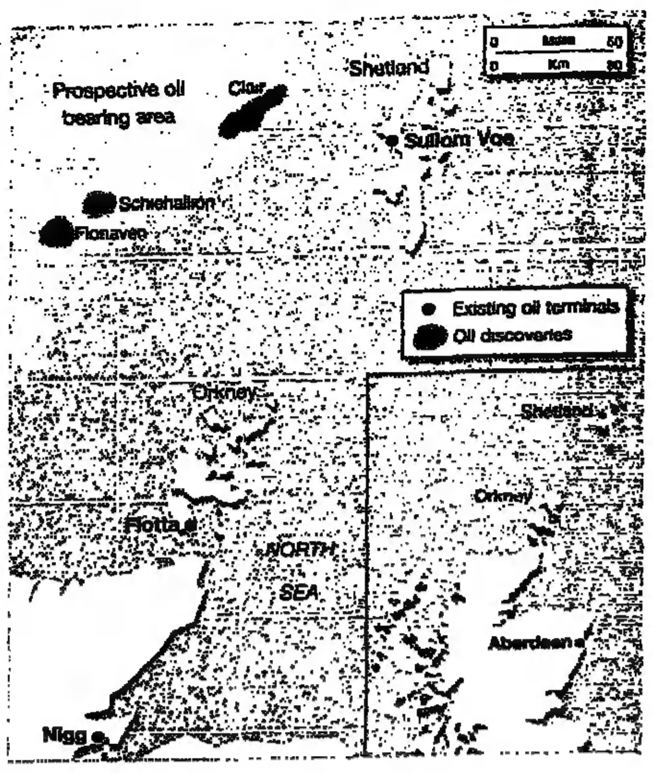
He said such a compromise would leave the government open to an action in the European Court of Justice by aggrieved competitors of companies employing disabled workers.

"The Commission is not the European Court of Justice. They don't decide what the law is, neither is it the policeman of European law. So whatever they say about the intentions of the directive is irrelevant," he said.

The demise of the scheme puts the jobs of thousands of disabled workers at risk, although companies will still be eligible for subsidies of up to £10,000 per job. Remploy, the biggest company involved, has 8,736 disabled workers in 95 factories.

Oil fever returns to Scotland

Robert Corzine and **James Buxton** evaluate the 'Atlantic Margin'



What's in a name? Everything, according to local government officials on mainland Scotland and the northern isles vying for a share in the future wealth of the UK's most promising frontier oil province.

"West of Shetland" is the most common description for an area of mainly deep water in the North Sea in which British Petroleum is developing its Foinaven discovery.

But use that term in the Orkneys and you will be reminded that Foinaven lies "north of Orkney." For those on the mainland, "Atlantic margin" has the right neutral ring.

The one thing all officials agree on is that oil fever has broken out once again among some of Scotland's more remote coastal and island communities. But this time there is little chance of a bonanza on the scale of earlier North Sea discoveries. Although 2bn-10bn barrels of oil may eventually be found, developing deep-water fields in the harsh conditions of the open ocean is risky and expensive. In addition the waxy oil found so far sells at a discount to Brent Blend, the North Sea benchmark.

Local officials, however, are optimistic that the new finds will throw a lifeline to at least one of the huge oil terminals at Sullom Voe, Flotta and Nigg, which without new business face steady decline and eventual closure as the fields for which they were built are depleted.

Foinaven's expected production of 75,000 barrels by late next year or early 1996 will do little to fill the increasingly empty tanks at the terminals, which between them can handle many hundreds of thousands of barrels a day. But industry experts believe Foinaven will be just the first of a string of discoveries developed over the next few years.

Schiehallion, another BP discovery, is currently being assessed. And if the Foinaven reservoir behaves in the way BP engineers hope, the first phase could be followed by a more ambitious second stage of development.

Other companies are optimistic about the area. Amerada Hess is appraising the results of a four-well drilling and seismic programme, amid reports that it has found sufficient reserves to justify commercial development.

But even the most optimistic forecast for future production suggests that it will not be enough to sustain three terminals; hence the increasingly bitter competition to secure the contract to land and store Foinaven oil.

Nigg, the smallest terminal, was built 13 years ago to receive oil by pipeline from the Beatrice platform. It also offloads tankers from the new Gryphon field.

Failure to win the Foinaven contract would be "life threatening", according to an executive with one of the terminal's owners. With Beatrice production in sharp decline more of the terminal's operating costs would have to be added to the smaller Gryphon field, a burden which "may not be economic", according to the executive.

Nigg's bid to BP is expected to be about half that of Flotta and Sullom Voe, because it already has the heated storage tanks which Foinaven oil requires. But shuttle tankers would have to add eight hours to their return journey time compared with the other two, a factor which could offset much of its apparent advantage.

Flotta, which lies alongside the natural deepwater harbour of Scapa Flow, is likely to offer BP a form of partnership which could include a stake in the terminal.

Orkney Islands Council says it would support using part of a £60m fund controlled by it and the terminal's owners to pay for modifications to Flotta's facilities.

Mr John Bryce of Elf Enterprise, operator of the terminal, says both Flotta and Sullom Voe would have to invest £3m-£8m in new Foinaven-related facilities.

But the winning local authority could gain £3m-£6m in additional revenues over five years, he estimates.

Profits for the terminal operators from a Foinaven contract are likely to be modest, given BP's rigorous emphasis on cost-cutting. But officials at both Sullom Voe and Flotta believe success with Foinaven would put the winning terminal at an advantage to serve as the landfall for a pipeline which might be built once other fields are brought on stream.

Because of its size Sullom Voe plays a proportionately more important part in the Shetland economy than Flotta and Nigg do in the economies of Orkney and of the Highland region respectively.

Daily throughput of oil at Sullom Voe averages about 800,000 barrels per day, more than double the flow at Flotta. It employs 411 people and pays rent and other charges amounting to about £9m a year to Shetland Islands council. Over the years Shetland has accumulated reserve funds of about £180m.

However throughput at Sullom Voe is predicted to fall to about 450,000 bpd over the next four to five years as the Ninian and Brent fields decline. BP operates Sullom Voe but because of its conflict of interest over the Foinaven issue, it is being represented by Chevron and Esso. They have already warned Shetlanders that Foinaven will not be "a white knight" that halts the long term decline of the terminal.

Shetland Islands council, concerned not only that Foinaven oil could bypass it but that users of Sullom Voe could adopt other ways of transporting their crude, wants to know what it can do to improve Sullom Voe's chances. So far, it says, it has received no proposal from the oil companies.

CONTRACTS & TENDERS

Britain in brief

Sales show UK pick-up to be patchy

Further indications of the patchy nature of the pick up in UK consumer spending emerged today after a business survey showed that the rate of growth in high street sales slowed in July.

With the level of sales lower than businesses had expected, the results suggested that retailers are seeing a steady, rather than spectacular, recovery in the aftermath of April's tax increases.

The Confederation of British Industry's survey of distributive traders showed that 40 per cent of UK retailers reported that sales had increased in July, compared to the year before. This result was significantly less upbeat than in June, when sales volumes had surged and was also well below retailers' previous predictions.

However the CBI downplayed the dip and pointed out that the underlying trend in retail sales remained upward. The monthly survey data had been uneven since April's tax rises, and most sectors had reported a growth in annual sales volumes, the CBI added.

Healthy trade with Malaysia

Despite a ban by the Malaysian government on giving contracts to UK companies Britain's trade with Malaysia has recorded a healthy surplus in the first six months of the year. According to figures released in Kuala Lumpur Britain's exports to Malaysia rose 80 per cent in the period to £666m. Meanwhile Malaysia's exports to Britain dropped by 24 per cent to £581m.

It is thought that a large portion of the goods exported by Britain to Malaysia over the last six months resulted from contracts signed before the ban was imposed.

The trade figures are likely to have included British defence equipment, including British Aerospace Hawker fighter aircraft, delivered recently to Malaysia under the terms of a controversial 1988 memorandum of understanding on defence sales signed by Baroness Thatcher and Dr Mahathir Mohamad, Malaysia's prime minister.

Britain's Diadora semi-professional football league at the weekend became one of three in Europe – the others being the Belgian and Hungarian second divisions – to use optional "kick-ins" as part of an experiment by Fifa, the sport's world governing body. The option, allowing a team to kick the ball back into play from the touchline instead of throwing in, was used in two youth tournaments, in Turkey and Japan, last season. In 1973, the Diadora league pioneered the three points for a win system which Fifa adopted at this summer's World Cup in the USA. As Fifa seeks ways to speed the game up and make goals more likely, critics have said the kick-in encourages a less skilful long-ball style of play. Here, Hendon's Lee Smart kicks in against Slough Picture: Adam Scott

Call to bury rural pylons

Electricity lines which spoil the countryside should be buried, rerouted or screened, according to the Countryside Commission.

Calling on all electricity companies to have a "wirescape improvement programme" the Commission says that the electricity industry should now conform to higher standards than applied when pylons began to proliferate in the 1940s and 1950s.

The commission points out that several continental countries including France, Belgium, Denmark and the Netherlands have begun work to reduce the visual impact of high and low voltage lines, and many lines in cities have already been buried.

Car record now unlikely

New car registrations in the first ten days of August, the most important sales month of the year, rose by 3.7 per cent. The increase was smaller than had been forecast by some carmakers and undermined industry hopes of achieving record sales this month.

It is understood that new car registrations rose to 258,392 in the first ten days of August from 249,153 in the same period last year.

New car registrations in August are boosted by the change of registration prefix and now account for around a quarter of all new car sales.

The UK has led the European new vehicle market out of recession, and in the first seven months new car registrations rose by 13.3 per cent year-on-year to 990,752.

IRA planted seaside bombs

The Irish Republican Army claimed responsibility for the bomb attack on the south coast towns of Bognor Regis and Brighton at the weekend. The bombs were hidden in panniers on mountain bikes.

US health links denied

Mrs Virginia Bottomley, health secretary, yesterday dismissed opposition Labour claims that the government was preparing to sell off parts of the National Health Service as "a monstrous fiction." She denied that talks between Mr Tom Sackville, health minister, and US cancer specialists Salick Health Care, would lead to privatisation. "Talk of parts of the NHS being sold off to US firms is complete and utter nonsense" she said.

Advert sale to US-led group

The government approved the sale of London Transport Advertising, the advertising arm of London Transport, to a consortium led by the largest transport advertising company in the US, Transportation Displays Incorporated, and Hambro Group Investments.

LTA, which generates about £23m a year, is responsible for selling advertising space on London Underground and most of London's buses.

Prisons on short list

The Prison Service has drawn up a shortlist of twelve prisons and nine open prisons as candidates for market testing later this year which have the greatest potential for improved performance. Each of the prisons now has a month to provide more qualitative information which might explain their poor performance in the board's analysis.

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MANAGEMENT: THE GROWING BUSINESS

In the first of an occasional series on employee share ownership in private companies, **Richard Gourlay** looks at its effect as a motivating agent

Spreading the wealth

CMG Computer Management Group is one of those rare companies about which champions of widespread employee share ownership should be shouting from the hilltops.

Founded 30 years ago, the European computer services company that helps industry and government make better use of computers has grown to 2,000 employees but is still a private company.

Some 200 of these people have been with CMG for more than 10 years, double the average in the software industry, which suggests that it has avoided the bane of many smaller companies' existence – how to motivate employees.

Successful businesses generate loyalty. But Douglas Gorman, CMG co-founder and current chairman, believes extending share ownership through the company was a crucial motivating ingredient, particularly in a business where the assets wore shoes and went home each night.

As a measure of the now blurring distinction between employee and owner, staff have spent £14m buying CMG shares since the founders started dispersing shares in 1968.

"Once the company started to take off, we offered people the shares," Gorman says. "We have to assume people want the same kind of things as we did – capital growth and involvement."

Gorman has travelled further along this path of employee participation than many founders of successful companies. But organisations which promote wider share ownership, such as Proshare, say many private company owners are unaware of the benefits of spreading ownership.

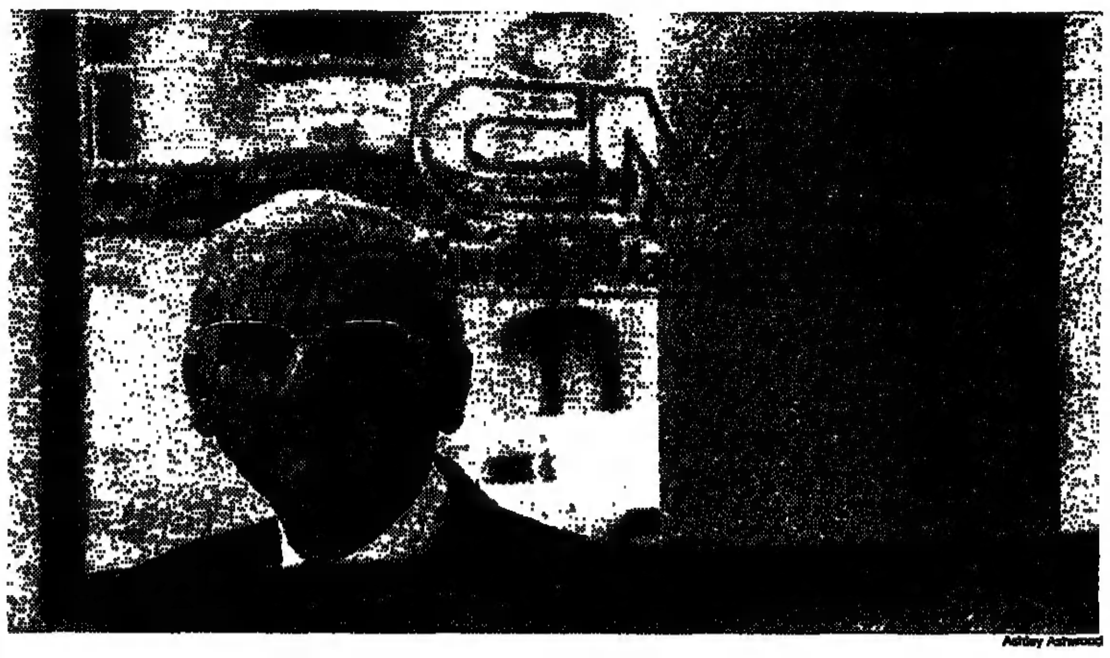
Increasing motivation and a sense of sharing in the fruits of success is one benefit. But for the owner seeking a total or partial sale of shares, employee share option schemes are also tax-efficient vehicles for transferring ownership to employees.

So when is the right time for owners of a growing private company to consider selling shares, granting options, starting a Save As You Earn-based scheme or setting up an ESOP?

Peter Kindersley is in no doubt. The co-founder and chairman of Dorling Kindersley, the publishing and multimedia company, who last month made £2.6m of his own shares available to his senior managers in an option scheme, says there is no time like the present.

"It is a no-lose situation," Kindersley says of the scheme he began nearly 20 years ago. "I have had nothing but good out of it. It makes people work together much better and makes people happier."

Proshare agrees. As long as the business is on a sound footing, there is a case for introducing some form of employee participation.



Ashley Ashwood

Douglas Gorman: 'We have to assume people want the same kinds of thing as we did – capital growth and involvement'

"This is a huge under-exploited possibility for the private sector," says David Senior, Proshare's director of company services.

But like Dorling Kindersley, CMG was only able to contemplate a share scheme because it had a sound foundation and was growing successfully.

Gorman says some of the credit for CMG's success goes to Charles de Gaulle. After the French president blocked the UK's entry into the Common Market in 1963, Gorman decided continental Europe was where the future lay and that CMG needed to be there. At a time when some of his staff were reluctant even to expand beyond the company's base in Croydon, south London, Gorman decided to open in the Netherlands.

The Dutch business took off, through contracts with the government and Philips, the electronics company. But Gorman is convinced his staff turnover levels were lower than the industry norm at a crucial phase in CMG's development because of the share scheme.

"They would have splintered off had we not given shares," Gorman says of the staff who helped build the business. "The share scheme has a lot to do with staff retention." Gorman first started offering shares when the company had only 17 employees in 1967, three years after it was founded.

From the early days, CMG's shares traded once a year. The price was decided by two external assessors, the company's auditors and a merchant bank. There was no bid-offer spread. And the founders made available the shares to meet whatever demand there was at the designated price.

Over the years this process has reduced Gorman's stake in the company from 40 per cent to 15 per cent. But CMG only became a true employee-owned company when Gorman's co-founders – together owning 60 per cent of the company – sold their shares. "People put in a huge financial effort, like taking out loans, to buy the shares," says Gorman. Within a period of 18 months the founders' combined stake fell from 75 per cent to 28 per cent.

"It was dramatic. In the next two or three years the company really took off more than before – there was a release of entrepreneurial atmosphere," says Gorman. "The difference was gigantic. People said: 'If we don't like things we can outvote Gorman or get rid of him'."

For some owner managers, such an open invitation to rebellion might be too much to swallow. Accustomed to their word being law, many founders might not stomach such breaches of discipline. Gorman says this democratisation of the decision process was less unpalatable because the three founders had always discussed strategic moves.

The only significant insurrection Gorman reports was led by the co-founder with the smallest stake. Isolated in his view that CMG should float sooner rather than later, he started a pressure group to canvass support. When it came to a vote he found little support, Gorman says.

The system worked until three years ago when the company grew too big and the share scheme became unwieldy. "The value of the shares rose faster than salaries so we are going to a flotation to have a market in the shares," says Gorman. "There were more sellers than buyers and we decided as a temporary step we would sell to outsiders." As a result, CMG shareholders sold 4 per cent of the company's equity to Midland Montagu Ventures, now named Montagu Private Equity, for £3m.

By that time the impact of wider ownership was waning. "I think as a company gets bigger the positive feeling of owning shares, the feeling of belonging to a select club get diminished slowly."

Dorling Kindersley's growing size also lay behind Peter Kindersley's apparent largesse last month. He shares Gorman's belief in the motivational effect of employee share ownership. "It is a positive thing," he says. "We are trying to keep people and not trying to prevent them from going."

The problem was that senior executives arriving at the company were out of step with colleagues who had been collecting shares since Kindersley started the employee share participation scheme. At the same time, Kindersley wanted to push the share option scheme further down the company. Making his own shares available freed up the ordinary option scheme which, with a limited amount of share options, would otherwise have been used up by senior management.

The approach is unusual, if not unique. It is certainly enlightened self-interest. But variations on the theme are only slowly catching on.

This is in spite of studies carried out by the Involvement and Participation Association, an organisation supported by unions and employees. These show that people in companies with share schemes that reach all employees have more positive attitudes than those without them.

To people like Gorman, such findings are obvious. The old demarcation lines in the UK that so often lead to conflict, mistrust and lack of co-operation are fatal for the development of many businesses, he believes. This is particularly true when businesses are smallest and retaining good people is toughest.

For many companies, introducing share participation schemes that reward and motivate may provide a more certain way of breaking into the growth corridor and staying there.

Capital seeks fresh adventure

Scarcity of deals for the UK houses means that something must give

A year ago UK venture capitalists were somewhat apprehensive. They were celebrating an extremely good year during which many companies they backed had floated.

But there were serious doubts whether all the venture capital houses seeking to replenish their funds would be able to do so.

Talk of venture capital groups being forced to merge was rife. Quite separately, there was concern whether there were enough financeable deals about.

A year later most of these fears have come to nothing. Even venture capitalists demonstrating weaker track records have successfully raised funds, although they have had to scour the US to raise the money.

And with one notable exception, there have been few forced mergers. Much of the consolidation has brought new commitment to the development capital industry.

But there is a problem with deal flow. Particularly at the larger end of the market, there are too many venture capitalists chasing too few deals.

According to a report from the management buy-out group of accountants Ernst & Young, this is the single biggest issue the UK venture capital industry must confront in the coming years.

Ernst & Young's research is based on an independent study of UK venture capitalists, fund investors on both sides of the Atlantic, corporations that have been or are likely to sell subsidiaries, and venture-backed companies.*

Many of the UK's larger development capitalists made net divestments from their portfolios in 1993 and are continuing to do so this year.

The good news for venture capitalists, the survey says, is that vendors are not preparing to curtail their divestment activities at all.

Such optimism should be tempered by the fact that the relatively low level of mergers and acquisitions activity in the last two years will have reduced the number of opportunities for MBOs and management buy-ins.

Ironically, the successful year of fundraising exacerbates the problem. There are not enough deals to go round. Something has to give. Ernst & Young believes venture capitalists might react in the following ways:

- Lowering returns. Nearly two thirds of the venture capitalists surveyed expected no change to their own internal rate of return requirement during the next two years. Of the remainder, three quarters expected downward pressure on returns. Venture capitalists have lowered their targets for IRRs from above 30 per cent, where they have been for years, to the mid- to high-20s, says Martyn Aguss, part of Ernst & Young's MBO team.
- More debt in deals. Since many banks withdrew from the market in 1990 – after their unhappy involvement in very highly leveraged deals in the late 1980s – there has been a shortage of senior debt providers. That is now changing. Banks are increasingly willing to provide debt and are prepared to see gearing ratios rise quite sharply from the one-to-one level that has prevailed for the last few years. That is likely to allow vendors to ask purchasers for higher prices and for venture capitalists to be able to fund them without undermining their returns.
- Venture capitalists will increasingly bid as principal on the larger deals, competing directly with trade buyers. To a lesser extent, the venture capitalists will also be bidding against management buy-out teams, Ernst & Young says. Backing quality management remained a priority but the incidence of financial bids, as they are called, was likely to increase.

Gone are the days when an MBO team ran an auction between equity suppliers and chose the venture capitalist that offered the best deal to management, not to the vendor.

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Southern District of New York
SECURITIES AND EXCHANGE COMMISSION
Plaintiff,
v.
EDWARD R. DOWNE, JR.
STEVEN A. GREENBERG,
MARTIN REVSON,
DAVID SALAMONE,
FRED R. SULLIVAN,
THOMAS WARDE,
MILTON WEINGER, and
BROADSWORD, LTD.,
Defendants

TO: David Salamone
c/o Thomas E. Engel
Engel & McCarney
720 Fifth Avenue
New York, NY 10019

SUMMONS IN A CIVIL ACTION
CASE NUMBER:
92 CIV. 4092

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New York, NY 10007
an answer to the complaint which is herewith served upon you, within 20 days after service of the summons upon you, exclusive of the day of service. If you fail to do so, judgment by default will be taken against you for the relief demanded in the complaint.

JAMES M. PARKISON, CLERK
Date: June 4, 1992

UNITED STATES DISTRICT COURT
Southern District of New York
SECURITIES AND EXCHANGE COMMISSION
Plaintiff,
v.
EDWARD R. DOWNE, JR.
STEVEN A. GREENBERG,
MARTIN REVSON,
DAVID SALAMONE,
FRED R. SULLIVAN,
THOMAS WARDE,
MILTON WEINGER, and
BROADSWORD, LTD.,
Defendants

TO: Broadsword, Ltd.
c/o Thomas E. Engel
Engel & McCarney
720 Fifth Avenue
New York, NY 10019

SUMMONS IN A CIVIL ACTION
CASE NUMBER:
92 CIV. 4092

YOU ARE HEREBY SUMMONED and required to file with the Clerk of this Court and serve upon
PLAINTIFF'S ATTORNEY
Richard H. Walker, Regional Administrator
U.S. Securities and Exchange Commission
New York Regional Office
75 Park Place
New York, NY 10007
an answer to the complaint which is herewith served upon you, within 20 days after service of the summons upon you, exclusive of the day of service. If you fail to do so, judgment by default will be taken against you for the relief demanded in the complaint.

JAMES M. PARKISON, CLERK
Date: June 4, 1992

NOTICE OF PENDING LAW SUIT

On June 4, 1992, the United States Securities and Exchange Commission ("SEC") filed a complaint in the United States District Court for the Southern District of New York against David Salamone ("Salamone"), Broadsword, Ltd. ("Broadsword"), and certain other persons (the "Action"). In the Action, the SEC alleges that Salamone and Broadsword violated Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by knowingly and unlawfully trading securities based upon material, nonpublic information. These transactions occurred during the period from June 1987 through May 1989 and involved securities issued by the following companies: Kidde, Inc.; Bear Stearns Companies, Inc.; Bally Manufacturing Corp.; and Edgcomb Corp. In the Action, the SEC seeks a judgment against Salamone and Broadsword in the amount of $3,809,349 — the illicit trading profits received by Broadsword — plus prejudgment interest. The SEC also seeks civil penalties of up to three times the total profits received by Salamone and Broadsword, pursuant to the Insider Trading Sanctions Act of 1984 and the Insider Trading and Securities Fraud Enforcement Act of 1988.

The SEC has been unable to locate Salamone or Broadsword at their last known addresses for the purpose of personally serving Salamone and Broadsword with a copy of the summons and complaint in the Action. As a result, the United States District Court for the Southern District of New York has authorized service of the summons and complaint upon Salamone and Broadsword by publication of this notice and the summons.

If Salamone and Broadsword do not serve an answer to the complaint in the Action within thirty (30) days after publication of this notice and the summons, the SEC will seek judgment by default for the full amount sought in the complaint — $3,809,349 plus pre-judgment interest and penalties.

Anyone possessing any information concerning the current whereabouts of David Salamone or Broadsword, Ltd. is requested to contact the U.S. Securities and Exchange Commission at Seven World Trade Center, Suite 1300, New York, New York 10048; Attn: Daniel R. Schnapper, Esq. (212) 748-8194.

REPEAT CALL FOR THE HIGHEST BID FOR THE PURCHASE OF THE GROUPS OF ASSETS OF MINAIDIS-FOTIADIS WOOL INDUSTRY S.A., OF ATHENS, GREECE

ETHNIKI KEPHALEOU S.A., Administration of assets and Liabilities, of 1 Skouleniou Str., Athens, Greece, in its capacity as Liquidator of MINAIDIS FOTIADIS WOOL INDUSTRY S.A., a company with its registered office in Athens, Greece, (the Company), presently under special liquidation according to the provisions of Section 46a of Law 1892/1990, (as supplemented by article 14 of Law 2000/1991).

announces a repeat call for tenders

for the purchase of any or all of the groups of assets mentioned below.

BRIEF INFORMATION

The Company was established in 1943 and was in operation until 1988, when it was declared bankrupt. On 21-5-1989, it was placed under special liquidation according to article 7 of Law 1386/83 and on 15-2-1994 under special liquidation according to the provisions of section 46a of Law 1892/90, as supplemented by article 14 of Law 2000/91. Its activities included the manufacturing, selling and export of wool and blended fabrics.

GROUPS OF ASSETS OFFERED FOR SALE

terms and conditions of the auction

1. A spinning and weaving mill in the Athens area (surrounded by Iakovaton St. N. Ionia Avenue S. Vizantiou St. D. Ralli), consisting of several buildings, covering an area of 10.438 sq. m., standing on a plot of approximately 6.100 sq. m. and containing machinery, mechanical equipment and a limited amount of stock in trade. Mention is made that the Athens Municipality has recently effected charges on the city planning, affecting the above area. (Therefore, interested parties should seek more information from the liquidator or the competent authorities). The company's registered name is also being offered for sale, although as well as other assets, excluding such claims as have been assigned to third parties.
2. A plot of land of approximately 617 sq. m. located beyond the city planning area, in the region of Koutsouko on the island of Salamina.
3. A plot of land of approximately 705 sq. m., located in the same area as the previous one.
4. A plot of land of approximately 457 sq.m., located beyond the city area, in the region of Aliki on the island of Salamina.

OFFERING MEMORANDUM - FURTHER INFORMATION:

Interested parties may obtain the Offering Memoranda in respect of the Company and its assets thereof upon signing a confidentiality agreement.

terms and conditions of the auction

1. The Auctions shall take place in accordance with the provisions of article 46a of Law 1892/1990, the terms and conditions set forth herein and the "Terms and Conditions of Sale" contained in the Offering Memoranda. Such provision and other terms and conditions shall apply irrespective of whether they are mentioned herein or not. Submission of binding offers shall mean acceptance of such provisions and other terms and conditions. Submission of offers in favour of third parties to be appointed at a later stage shall be accepted under the condition that express mention is made in this respect upon submission and that the offeror shall give a personal guarantee in favour of such third party.
2. ***Binding Offers:*** Interested parties are hereby invited to submit binding offers, not later than 16th September 1994, at 11.00 am hours to the Athens Notary Public Mrs. Ioanna Gavrielli-Anagnostalaki, at the following address: 18, Fidiou Str. Athens, tel: +30-1-361.97.28, fax: +30-1-362.51.91. Offers should expressly state the offered price and the detailed terms of payment (in cash or instalments, mentioning the number of instalments, the dates thereof and the proposed annual interest rate if any). In the event of not specifying a) the way of payment, b) whether the instalments bear interest and c) the interest rate, then it shall be deemed that a) the offered price is payable immediately in cash, b) the instalments shall bear no interest and c) the interest rate shall be the legal rate in force. Binding offers submitted later than the above date shall neither be accepted nor considered. The offers shall be binding until the adjudication.
3. ***Letters of Guarantee:*** Binding offers must be accompanied by a Letter of Guarantee, issued in accordance with the draft Letter of Guarantee contained in the Offering Memoranda, by a bank legally operating in Greece, to remain valid until the adjudication. The amounts of the Letters of Guarantee must be as follows: (a) for the cotton spinning and waving mill in Athens area (1st Auction); drs 80,000,000 (EIGHTY MILLION), (b) for the plot of land in Koutsouko (2nd Auction): Drs. 500,000 (FIVE HUNDRED THOUSAND), (c) for the plot in the same Region (3rd Auction) Drs. 500,000 (FIVE HUNDRED THOUSAND), (d) for the plot in Aliki Region (4th Auction): Drs. 500,000 (FIVE HUNDRED THOUSAND) Letters of Guarantee shall be returned after the adjudication. In the event of non-compliance with the provisions and other terms and conditions referred to in paragrahp 1 hereof, the Letter of Guarantee shall be forfeited as a penalty.
4. ***Submission:*** Binding offers together with the Letters of Guarantee shall be submitted in sealed envelopes. Submissions shall be made in person or through a duly authorised agent.
5. Envelopes containing the binding offers shall be unsealed (successively as mentioned above, ie 1st Auction, 2nd Auction etc) by the above mentioned Notary Public in her office, on the 16th of September 1994, at 14.00 hours pm. *Any party having duly submitted a binding offer shall be entitled to attend and sign the deed attesting the unsealing of* the binding offers.
6. As highest bidder shall be considered the participant, whose offer will be judged, by creditors representing more than 51% of the claims against the Company (the "Creditors"), in their absolute discretion, upon suggestion of the liquidator, to be in the best interests of all of the creditors of the Company. Mention is made that for the purposes of evaluating an offer proposed to be paid in instalments, the present value thereof shall be taken into account, which shall be calculated on the basis of a discount interest at an annual rate of 22% compounded yearly.
7. The liquidator shall give written notice to the highest bidder to appear on the date and place mentioned therein and execute the contract of sale in accordance with the terms contained in his binding offer and/or any other improved terms, which may be suggested by the Creditors and agreed upon. Adjudication shall be deemed to take effect upon execution of the contract of sale.
8. All costs and expenses of any nature in respect of the participation and the transfer of the assets offered hereby for sale shall be exclusively borne by the participants and the purchaser respectively.
9. The liquidator and the Creditors shall have no liability nor obligation whatsoever towards the participants in relation to the evaluation of the offers or the appointment of the highest bidder or any decision to repeat or cancel the Auction or any decision whatsoever in connection with the proceedings of the Auction. The liquidator and the notary shall have no liability for any legal or actual defects of the assets. Submission of binding offers shall not create any right *for the adjudication nor the participants shall acquire any right, power or claim from this invitation and/or their* participation in the Auction against the liquidator and/or the Creditors for any reason whatsoever.
10. This invitation has been drafted in Greek and translated into English. In any event the Greek version shall prevail.

To obtain the Offering Memoranda and any further information please apply to the Liquidator's attorney in Athens, Mr Nikolaos Psaroudakis at 3, Voukourestiou Str., 10654 Athens. Tel: +30-1-322.18.69 and +30-1-325.41.40 Fax: +30-1-325-41.20.

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LEGAL NOTICE

Company Number: 2444836
SCHERING AGROCHEMICALS HOLDINGS LIMITED

Notice of Resolution for payment of capital

NOTICE is hereby given in accordance with section 175 of the Companies Act 1985 that:
1. the above named company ("the Company") has approved a payment out of capital for the purpose of acquiring 82,185,000 ordinary shares of £1 each;
2. the amount of the permissible capital payment for the shares in question is £82,185,000;
3. the date of the resolution for payment out of capital is 10 August 1994;
4. a statutory declaration of the directors of the Company and auditors' report required by section 173 of the Companies Act 1985 are available for inspection at the Company's registered office;
5. any creditor of the Company may at any time within the 5 weeks immediately following the date of the resolution for payment out of capital apply to the court under section 176 of the Companies Act 1985 for an order prohibiting the payment; and
6. the registered office of the Company is at The Brow, Burgess Hill, West Sussex, RH15 9NE.

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KPMG Corporate Finance

The contents of this statement have been approved for the purposes of Section 57 of the Financial Services Act 1986 by KPMG Peat Marwick which is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

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For further information contact the Joint Administrative Receiver, Phil Wallace, KPMG Peat Marwick, PO Box 730, 20 Farringdon Street, London EC4A 4PP. Tel: 071 236 8000, Fax: 071 248 1790.

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TECHNOLOGY

Lower quotes prices

Access to international stock market quotes, financial data and business news is now available via the Internet at considerably lower cost than most online services.

Quote.Com, a service established by a Nevada company of the same name, lists 23 exchanges in Europe and North America. Users can access quotes for stocks, mutual funds, commodities, futures and precious metals.

As part of the basic service offered by Quote.Com for $9.95 (£6.40) per month, users can store a portfolio of up to 50 listed financial instruments and will receive, via E-Mail, a close-of-trading day report. During the day, they may receive E-Mail alerts if their set price limit alarms are triggered.

Access to London exchanges or European exchanges costs $19.95 per month.

"The Internet gives companies the ability to reach the world market with very little difficulty," says Chris Cooper, president of Quote.Com. While taking advantage of the extensive reach of the Internet, Quote.Com has avoided the infrastructure and software costs generally associated with creating a new online service.

Quote.Com's Internet server can be accessed using four connection methods: telnet (telnet quote.com), E-Mail (info@quote.com), direct Internet connection on a World Wide Web browser (http://www.quote.com) or via file transfer protocol (ftp.quote.com).

● Voice of America, the international radio broadcasting system funded by the US government, this week began digital audio newscasts via the Internet. The 10-minute newscasts are available in 15 languages to computer users worldwide, 24 hours a day. The digitised signals can be converted into sound by most PCs.

Louise Kehoe

Special agents

Intelligent gophers and experts are here, writes Vanessa Houlder

First thing Monday morning. You switch on your office computer. Your electronic secretary greets you with a suggested schedule for the day, a run-down of your messages in order of importance, and a summary of articles and reports retrieved overnight from an international information network.

It also reminds you to arrange meetings and travel plans for a business trip two weeks away. You tell it to go ahead. It scans your diary to work out when you can fit in some meetings and sends out an agent to negotiate the timing of the meetings with your colleagues' agents.

It then sends out an agent to comb the airlines' computer systems for you. It selects the cheapest flight offered by one of your preferred airlines that fits your schedule. You approve its choice and it completes the deal by arranging for your credit card agent to give your card details to the airline's sales agent.

That scenario takes place around 2000, when electronic secretaries, librarians and other agents have become commonplace. They "know" their users' likes and dislikes and can navigate their way through the most intricate computer systems.

The technology is now emerging from research laboratories that might allow this vision to become real. So-called intelligent agents – sophisticated pieces of software capable of acting on behalf of users – are being developed with the ability to scan data banks, to schedule meetings and to handle routine clerical tasks.

Ovum, a UK-based consultancy, estimates that the markets for products and services using intelligent agents could reach more than $2bn (£1.2bn) in the US and more than $1.5bn in Europe by 2000.

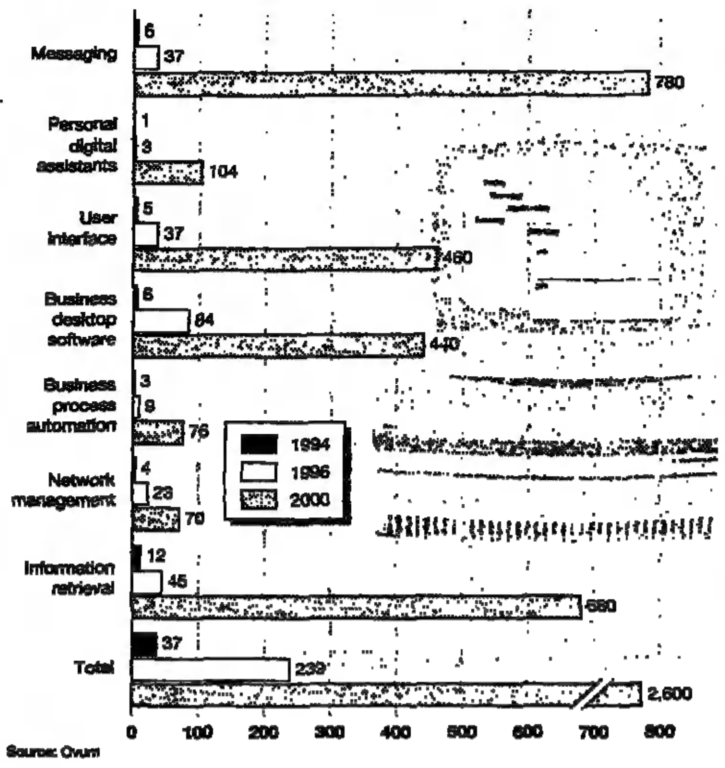
That confidence in the market's potential is shared by a growing number of suppliers and developers, such as AT&T, Sharp, Hewlett-Packard, IBM, Massachusetts Institute of Technology and General Magic, which are beginning to deliver products designed for a range of industrial sectors, notably telecommunications and computing.

Many examples of simple intelligent agents are already in use, performing tasks such as retrieving information, automating repetitive tasks and filtering extraneous information.

For example, the White House uses intelligent agents to retrieve information. It has collaborated with MIT to devise a system that deals with the hundreds of requests for information it receives via Internet every day. Agents are used to match keywords in the requests with relevant mailing lists.

Agent-related revenues by application

US and Europe ($m)



Source: Ovum

A loan authorisation system devised by Andersen Consulting exemplifies the way that intelligent agents can be used to address repetitive tasks.

Using this system, about 80 per cent of all loan decisions are made by agents; only problematic cases are examined by humans.

The ability to filter information is demonstrated in another Andersen Consulting product, the Commander Exception Monitor, which it produced in collaboration with Comshare last September.

The product is used by Hertz, the rental company, to analyse pricing structures in the car rental business. By excluding trivial changes, the system reduces the equivalent of 28,000 spreadsheets of information about prices, locations, sizes and type of car into something that can be easily monitored by its pricing executives.

The agents that will bring the early commercial success are likely to be those that concentrate on information filtering, in the view of Jeanne Harris of Andersen Consulting. "The kind of business problems that we solve first are time-consuming, involve large amounts of data and are boring," she says.

Andersen Consulting believes that agents can be classified into four basic types. At the simplest level, "gopher" agents are capable of executing simple tasks based on rules and assumptions, such as performing daily file back-up routines.

"Assistant" agents are capable of making decisions, such as scheduling meetings, as well as executing tasks. "Expert" agents have specific expertise that allows them to advise or train the user.

"Analyst" agents are capable of making inferences or suppositions. They can identify patterns and trends, and can also infer the reasons behind them. They might, for instance, be able to infer from an article search that articles on a related subject would be of interest to the user.

Some agents may also be able to negotiate. BT, for example, envisages that agents will eventually be able to negotiate with each other on behalf of their respective owners – the caller and telecoms companies – to find the optimum mix of bandwidth, price and time for making a call.

For researchers in the field of intelligent agents, the problems transcend the merely technical. The widespread use of intelligent agents will raise difficult issues about privacy and copyright as organisations allow greater access to data and information.

Security is another thorny issue raised by agents, particularly "mobile" agents, which can move around computer systems. The possibility of agents roaming the computer networks conjures visions of maverick ones gaining access to confidential data, destroying files and disabling programs.

Robin Smith, strategic developments manager at BT Laboratories, is concerned that computer viruses could be spread in the guise of an agent. "If an agent could go anywhere on a system, it could be a Trojan horse," he says.

Another important constraint upon the introduction of intelligent agents is likely to be the attitude of potential users. People may feel that their jobs are threatened. Moreover, they are likely to feel nervous about handing over any responsibility to a computer. "People will be reluctant to trust computers to take decisions," says Harris.

The technical, security and human obstacles that need to be overcome mean that intelligent agents may take longer than envisaged to fulfil the more grandiose hopes of their developers. "Intelligent agents will probably experience a fall from grace around 1997, as early desktop products fail to deliver the most lavish futuristic visions," says Ovum.

But the potential of even the simplest intelligent agents ensures that agents should be taken seriously by developers and by potential users, it says. "Intelligent agents will increase the performance gap between organisations which use IT effectively, and those which don't."

American R&D rich in paradox

Innovations multiply as research stagnates, writes Deborah Shapley

The latest survey of US companies' investment in research and development echoes the "ingenious paradox" in *The Pirates of Penzance*, the comic opera in which hero Frederick was 20 years old and a little boy of five at once – because he was born in a leap year.

How the total which American companies spend on R&D can remain flat for six years while so many are vibrantly innovative is a paradox worthy of W.S. Gilbert, librettist of *The Pirates*.

In 1993, US companies' spending on their R&D rose by 4.2 per cent over the year before, or a tiny 1.9 per cent after inflation, according to Business Week's annual compilation of industrial R&D, based on Standard and Poor Compustat data.

Internationally, the 4 per cent rise put US companies slightly ahead of non-US concerns, whose R&D rose overall by only 2.1 per cent, but well behind the UK, Switzerland and Sweden, which increased by 10 per cent or more.

In the US, industrial R&D has been nearly stagnant in real terms since 1987, according to the National Science Foundation. The total, now $83bn (£54bn) has been held down by nearly level spending by the big auto concerns and by office equipment and computer manufacturers such as IBM and Digital Equipment.

Companies had many reasons to cut R&D in the late 1980s. Military contracts were drying up, so defence companies cut their own military-related R&D. The pervasive loss of global market share in a host of industries, followed by the 1990-91 recession, caused chief executives to make further cuts.

President Bill Clinton took office pledging to raise industrial R&D, but his supporters can no longer blame the stagnation on his predecessors.

Charles Larsen, executive director of the Industrial Research Institute, believes that R&D spending in 1994 will be little better, since CEOs are holding back spending to pay for Clinton's health reforms.

So North America's slice of the world's industrial research total will continue to narrow. In the postwar decades, more than half of all industrial R&D spending in OECD countries was carried out by US companies. But between 1985 and 1990, the US share declined by five percentage points to 47 per cent. Japan's share increased by six points to 21 per cent and Europe gained 1 per cent during the same period. By 1993, the US share had narrowed further, to 43 per cent.

The trend seems unlikely to be reversed by the much-touted industry-government "partnerships" which form the core of Clinton's technology policy. They are too small-scale, and the dollars that firms are using to match federal funds seem to be taken from other projects.

How can US industry R&D totals stagnate as companies show the very innovations that R&D is supposed to produce? How could IBM have won more US patents than any other company in 1993 – fully 1,087 – while the company slashed its R&D?

Berkeley economist Paul Romer argues that monopoly theory has the answer. He notes that the giants such as General Motors, IBM, AT&T and General Electric have found they can no longer afford enormous research programmes as their markets have been eroded by competition.

"A monopoly which controls a whole industry has an incentive to do R&D for the whole industry," he says. "But as its market erodes, it has a disincentive to fund the full range of work because its competitors can free ride."

By the new pattern in the US, aggressive small and mid-sized firms invest heavily in research, while the old giants hold R&D down. The related trend by which companies obtain more R&D from universities may help to give US firms a global edge as such arrangements are fewer in Europe and Japan.

The pattern is still worrisome because as a side-effect big companies have cut basic science; overall, US industry cut this by one-quarter to $3.7bn last year.

So the final paradox is that industries need to engage in basic research to remain market-competitive in the longer run.

PEOPLE

Smith's Challenge in New Zealand

Michael Smith, 43, one of the contenders to take over as the next chief executive of ScottishPower, is moving to the other side of the world to run a new utility business being set up by Fletcher Challenge, one of New Zealand's largest conglomerates.

Smith, a former general manager of Thorn Lighting who joined ScottishPower in 1990, takes up his new post as chief executive of Fletcher Challenge's utility sector at the end of the month. New Zealand, like Britain, has been deregulating its energy industry and Smith has been given the job of developing Fletcher Challenge's utility operations in New Zealand and globally.

Fletcher Challenge grew rapidly during the 1980s but its dependence on cyclical capital intensive industries, such as forest products and oil and gas, has caused problems and it has been selling off assets in order to reduce its gearing. It sold majority control of its New Zealand natural gas utility two years ago. However, the company's fortunes have been recovering and it is understood to be keen to take advantage of the opportunities thrown up by the privatisation of the local electricity business.

Smith, who has a marketing background, has been responsible for developing ScottishPower's non-regulated businesses which include CaledonianGas, retail, and electrical contracting. ScottishPower's core business is looking after a large part of Scotland's electricity supply but it has more than doubled its retail outlets, to 155, since privatisation and expanded into supplying natural gas and is moving into telecommunications.

Although Smith is said to have done a good job developing ScottishPower's non-core businesses, he was not thought to be the front-runner to take over from Ian Preston, who has headed ScottishPower since before privatisation and is expected to retire next year. Duncan Whyte, a 47-year-old Scot running the core electricity business, is thought to be the most likely internal candidate.

Smith said yesterday that thoughts of succession at ScottishPower had not prompted his decision to move to Fletcher Challenge. It is understood that he was partly swayed by family reasons. He is married to an Indonesian and spent six years in that country in the 1970s with Voluntary Service Overseas, Mobil Oil, the Ford Foundation and the World Bank.

Non-executive directors

■ John Lehman, a former secretary of the US Navy and chairman of Sperry Marine and of J.F. Lehman & Co. at SEDGWICK GROUP.

■ Sir Matthew Goodwin, chairman of Hewden Stuart and Murray Enterprise, at CRESTACARE.

■ Mike Hodgkinson, group airports director of BAA, at MOLINS.

■ Louis Freedman has retired from WEMBLEY.

■ Timothy Howden, group chief executive – Europe of the Albert Fisher Group, at SCHOLL.

■ Francis Cator has resigned from ANGLIAN WATER.

■ Robin Paul, deputy chairman and md of Albright & Wilson, and Neville Simms, (below), group chief executive & deputy chairman of Tarmac, at COURTAULDS.

■ Hollas, the Manchester-based clothing and textiles group, yesterday announced the resignation of Allan Richens as chairman and chief executive of Hawkshead Sportswear, its 50 per cent-owned outdoor clothing mail order group.

The move marks the latest stage of a wide-ranging overhaul at Hollas, which began last autumn when Julian Lee was appointed chief executive.

The departure of Richens – formerly finance director at Empire Stores Group and Hawkshead chief executive since November 1990 – follows trading difficulties which cost Hollas £71,000 last year.

Lee, who presided over the successful sale of Bricom in 1990 and came out of retirement – at the ripe old age of 48 – to run Hollas, said: "The anticipated improvements in Hawkshead Sportswear did not come through in the year."

Executives from Hollas, which owns Hawkshead jointly with Kleeneze, the home shopping business, will take responsibility for day-to-day operational matters at the Cumbria-based subsidiary. Clive Westbrook, Hollas's group financial controller, will look after its financial affairs, while merchandising control will pass to Kleeneze.

"With these changes, I believe we will see an improvement in Hawkshead's performance during the current financial year," Lee said.

Hodder's deputy head

Tim Hely Hutchinson, chief executive of Hodder Headline, continues to carve his faintly iconoclastic path through the publishing world by bringing on board as his deputy a man from the company that brought you Sonic the Hedgehog. In Mark Opzoomer, commercial and finance director of Sega Europe, Hely Hutchinson recognises what he calls "the acceptable face of high-level finance".

The new broom is obviously not bowled over by the calibre of his peers in other publishing houses. "We employed headhunters Spencer Stuart because we were pretty sure the right person didn't exist in our industry," he says.

But what do the folks from Hodder & Stoughton, that grand old publishing name that was "merged" with Headline last year, think of the arrival of an electronic media buff? "The people who remain here from pre-merger days are the forward-looking ones," says the boss. And the only "family" man still extant is the head of marketing for general books, Jamie Hodder-Williams, who is "actually very good".

Finance moves

■ Antony Wilton-Steer (above left), formerly vice-president, European government bond sales at Salomon Brothers, has been appointed a director of UBS as head of central bank debt sales and European government bond product manager.

■ Adam Quarry (above right), formerly head of practice development at Linklaters & Paines, has been appointed marketing director of 3i.

■ Albert Maasland, head of foreign exchange sales and marketing in Europe at Chase Manhattan, is to join MIDLAND Global Markets in London in the newly created post of head of marketing and business development, as from September.

Rob Loewy, head of foreign exchange at Midland, says Maasland will be working with the bank's product sales managers, across the capital markets and treasury divisions, to provide an integrated service to clients.

■ Gordon Wood, formerly vice-president of emerging markets at Morgan Stanley International, has been appointed director to ANZ's distribution team in London.

■ Mark Johnstone and Mark Sewell have been appointed directors of ALBERT E SHARP & Co.

■ George Cruickshank, chairman of RIGP Finance and Scottish Discount Company, and Peter Hook, group development director as from September 1, have been appointed to the board of LLOYDS BOWMAKER FINANCE.

■ Michael Williams, general manager, banking division, has been appointed to the board of NOMURA BANK INTERNATIONAL.

■ John Townsend, formerly international director of Gartmore Investment Management, has been appointed institutional marketing director for CITIBANK Global Asset Management.

■ Graeme Sinclair has been appointed director of sales & marketing at ABTRUST Fund Managers and Abtrust Unit Trust Managers.

BUSINESS AND THE LAW

Intellectual licence

George Graham on proposed new patent guidelines in the US

The arrival of new guidelines on the licensing of intellectual property, from an administration that has sometimes appeared to promise a new and more aggressive approach to anti-trust enforcement, has been anxiously awaited by lawyers and high technology companies.

In the end, guidelines from the Department of Justice last week for a 60-day public comment period represented less of a change than some had feared. They recognise that the restrictions in many patent licensing agreements can be conducive to innovation and competition, rather than necessarily anti-competitive. Moreover, they contain no hint of mandatory licensing, which some officials had hinted they might try to enforce on companies whose technology dominates certain markets.

Yet there is a shift in tone from the 1988 rules, which these proposed guidelines would replace, and from the laisser-faire attitudes of the Reagan Department of Justice.

"The 1988 guidelines had, perhaps, a subtext that anything goes, and that subtext is not present in these new guidelines," says Mr Joseph Kattan, an anti-trust lawyer at the Washington office of Morgan, Lewis & Bockius.

The guidelines say that the Department of Justice will challenge some licensing agreements which it believes are used to restrict competition. In the 1980s, most patent licensing arrangements were viewed as vertical relationships between supplier and customer, rather than horizontal relationships between competitors, and thus less subject to challenge.

The new guidelines show a greater willingness to treat the relationship between licensor and licensee as horizontal when the two would be actual or likely potential competitors had they not signed a licensing deal. While the existence of a horizontal relationship "is not inherently suspect", it does open up more possibilities for challenge.

There is not, however, a wholesale return to the ideas pervading the department in the 1960s and 1970s, when the underlying assumption was that patents were monopolies and were really narrowly defined exemptions from the normal anti-trust rules. Then, Justice defined "nine no-nos" and brought many intellectual property cases and lost a high proportion.

Intellectual property: US Justice Department's new guiding principles

- Anti-trust laws apply to intellectual property as they do to any other property.
- Anti-trust enforcement should not unnecessarily interfere with the licensing and transfer of intellectual property rights
- The Justice Department will not presume that a patent, copyright or trade secret will necessarily give its owner 'market power'

The new guidelines preserve much of the Reagan era view that patents and other forms of intellectual property create desirable incentives for innovation and productive activity by rewarding entrepreneurs, inventors and creators.

"The anti-trust laws and the intellectual property laws share the common purpose of promoting innovation and enhancing consumer welfare," said Mrs Anne Bingaman, the assistant attorney general who heads the Department of Justice's anti-trust division.

One departure is the definition of a safety zone within which the Department of Justice will not usually challenge a licence's restraints as long as they are not so flagrantly anti-competitive that they should be treated as unlawful per se, and as long as the licensor and licensee together account for no more more than 20 per cent of each market affected by the agreement.

But because the zone is defined in terms of market share rather than dollar terms, there is uncertainty over how the market will be defined. For example, is the developer of a plain paper fax machine competing in the same market as makers of old thermal paper faxes, or has it created a new market in which its share is greater than 20 per cent?

"It's a good idea in that it gives comfort to people in an area in which they should have comfort, but if your innovation beats the socks off the alternatives in cost and quality, then it is probably a new market," says Mr Donald Baker, a former assistant attorney general at the Department of Justice who practises anti-trust law in Washington DC.

The guidelines also contain the first theoretical elaboration of the idea of innovation markets, although the concept has already been used, for example in a complaint last year against the proposed acquisition of a General Motors subsidiary by ZF Friedrichshafen. The Department of Justice argued the merged unit would almost monopolise the facilities for research on bus and lorry automatic transmissions.

"If the capacity for research and development activity that likely will produce innovation in technology is scarce and can be associated with identifiable specialised assets or characteristics of specific firms (which may or may not currently participate in the relevant technology or goods markets) it may be appropriate to consider separately the impact of the conduct in question on competition in research and development among those firms," the guidelines state.

What the department says and what it does may not, however, be the same. As one anti-trust lawyer points out, guidelines are written by "intellectual front-office types", while cases are brought by back-room litigators who want to win cases – and Ms Bingaman's division has hired more of this species.

Moreover, intellectual property lawyers have to take a long view in advising clients: will a licensing restraint stand up not only under this administration but in future? The question is not made simpler by the old age of some of the Supreme Court precedents, which might not survive in today's Court.

Recent cases brought by the division in the intellectual property field suggest a more aggressive attitude in this administration. "I don't have any doubt that the US is going to see a far tougher anti-trust policy than it did in the 1980s," says Professor Robert Pitofsky, an anti-trust expert.

While investigations began during the Bush administration into the licensing arrangements enforced by Pilkington, the British glassmaker, for its plate glass technology, the deployment of large platoons of government lawyers and economists that persuaded Pilkington to settle came under the Clinton administration.

Attracting most attention is the settlement with Microsoft, the computer software group whose Dos and Windows operating systems give it a mighty position in the software market for IBM-compatible personal computers. The consent decree negotiated with Microsoft is actually limited. It avoids pursuing the argument that Microsoft has leveraged its *de facto* monopoly position, and declines to pursue the idea of erecting a Chinese wall between the company's operating system and applications software divisions, concentrating instead on some specific pricing and distribution complaints.

Nevertheless, some of Ms Bingaman's predecessors from the 1980s have said they would not have brought the case.

ARTS

Drawn to two dimensions

William Packer reviews two of the Tate Gallery's latest bulk aquisitions

Big shows apart, the Tate Gallery is always worth a visit whether for the latest shift in the permanent hang, the return to the light of a long-forgotten treasure, or simply a sight of a recent acquisition. Not that this is a guarantee of pleasurable approval, you understand, but certainly of interest – lip-pursing, breath-sucking interest.

Two bulk acquisitions figure prominently at the moment, one of drawings from the last 15 years by British sculptors, the other of comparatively recent British figurative painting. Of the two, the *Sculptors' Drawings*, a collection put together by the Weltkunst Foundation under the advice of the late Adrian Ward-Jackson and presented to the Tate between 1986 and 1991, is the more contentious.

The accompanying pamphlet sets the tone: "The early 1980s saw the emergence of a new generation of British sculptors... who looked beyond the traditions of modern Western sculpture ...All..extend the possibilities of drawing in adventurous ways."

Richard Long, with one of his mud dribbles, and a diagram on graph paper of a parquet floor by Rachel Whiteread are also included. The Long "involved dipping the paper in wet mud and then letting the water run off in rivulets... Long often uses mud from the river Avon near his home in Bristol, but has here taken his medium from the Mississippi." Gosh.

So here we have the same old, I mean young, gang pushed at us yet again, and in the familiar breathless, self-justifying curator-speak, as though there were never any true sculptors in England before them, or beside them, or since. It is the jargon that gives the game away, all that posturing stuff about "looking beyond", "challenging", "breadth of creative vision", "extending possibilities in adventurous ways".

And of course these artists do no such thing. Miss Whiteread's parquet image, tastefully rendered in correcting fluid, may have its "outer areas (the writer means by this the nearer edges or facets) rendered in elevation", but it is no less conventional an isometric image for that. And what of Long's antecedents – Morris Louis, Max Ernst, Rorschasch tests, Alexander Cozens? Beautifully worked as they are, do Anish Kapoor's lush, abstracted images of orifices and other organs really "communicate across barriers of history and culture?" They seem pretty straightforward surreal abstraction to me, shades of Ernst and Miró and early Pollock. Antony Gormley's figure outlines are, well, figure outlines. As for Alison Wilding's "Angry" drawings, "suggesting her state of mind when she made the apparently violent and staccato marks across the drawn forms", we can only sympathise with her frustration at an apparent failure.

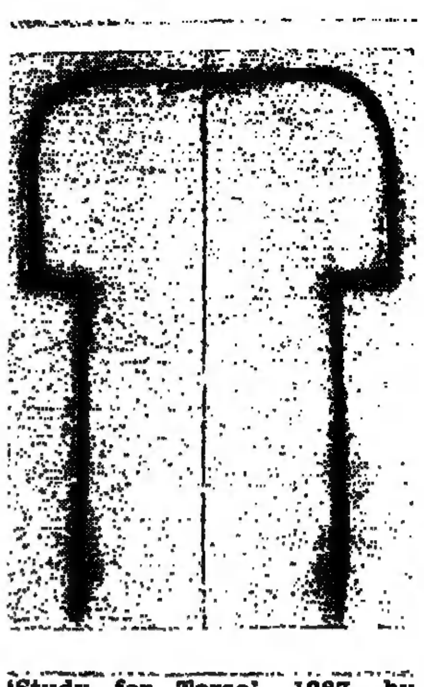
The myth persists that sculptors make good drawings by virtue of their being sculptors. The truth is that they make good drawings if they make good drawings. A working diagram (Richard Deacon) is still a working diagram, a scrawl (Wilding), even a useful scrawl (Shirazeh Houshiary) a scrawl still. Stephen Cox's *Etruscan Studies*, two blind masks with an ineptly constructed nose and mouth apiece, are hardly studies in any true sense at all.

That the Tate should show and indeed collect such things is entirely defensible, for they are the currency of contemporary activity, and a gift is a gift after all. What is questionable is only the vapid belief in their cosmic significance, and to the exclusion of so much else. There is an awful lot of other drawing out there, of such different kinds. What of that?

By contrast, the Wilkie Gift is simplicity itself. David Wilkie, who died in 1992 at the age of 71, was a man of modest means who nevertheless built up a significant collection of contemporary British art, with a particular leaning towards the mystical and symbolic. By his will, a part of it was to be offered to public collections, of which the Tate was one. In the event it accepted some 30 drawings by Frank Auerbach, and a further eight paintings by him, which extends the holding in that artist four-fold overall and more than doubles the paintings. Whether there should be such a preponderance is debatable, but while the drawings remain unseen, the paintings are of a very high quality and, with the studies after Titian, the *Rimbaud* series, and the classical allegorical compositions, certainly broaden his representation at the Tate.

Two Winifred Nicholsons, a fine large reclining nude by Craigie Aitchison, a small early Michael Andrews, and three compositions by John Lessore, including an imposing allegory of Diana surprised by Acteon in the life-room at the Byam Shaw, complete the bunch.

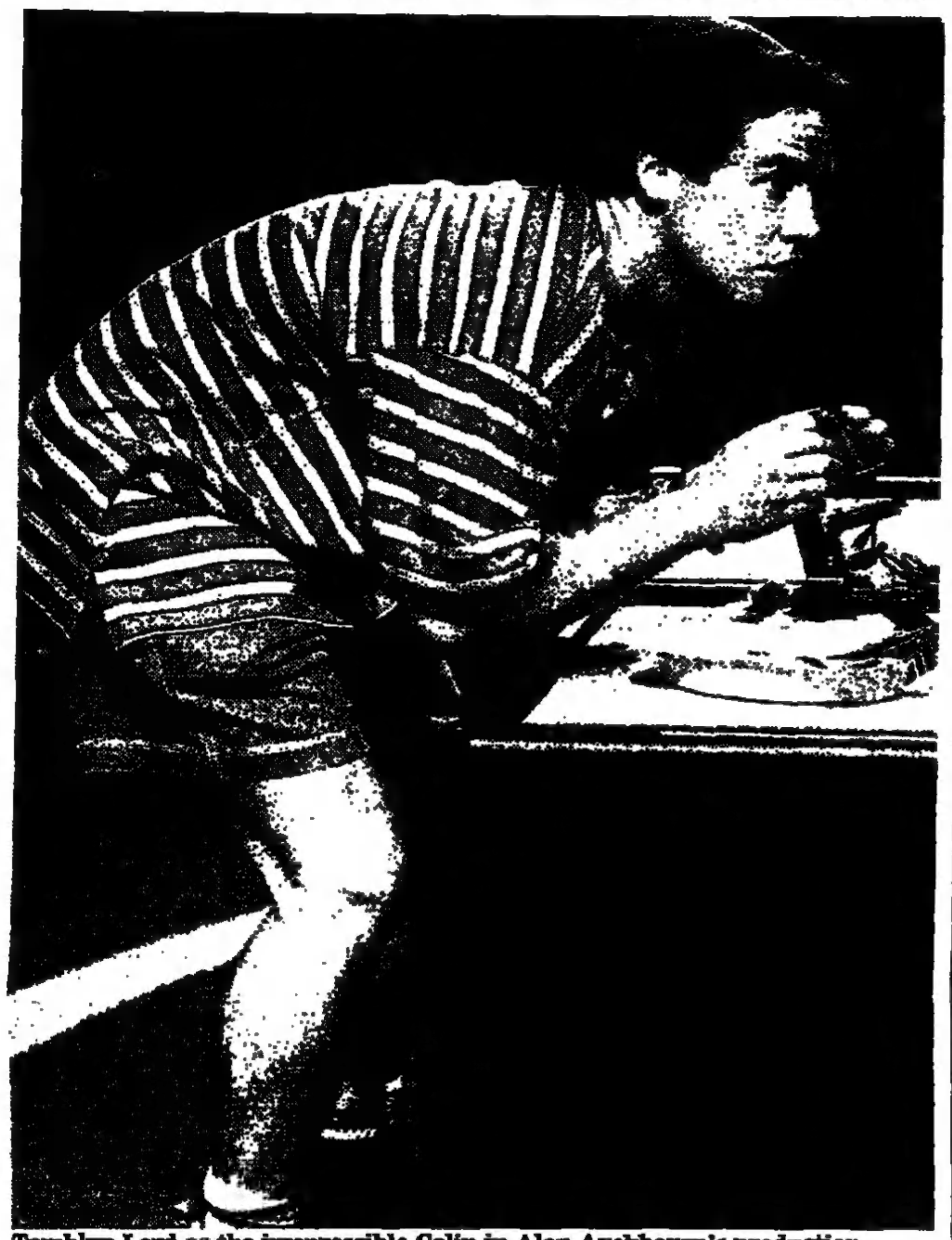
Current displays at the Tate Gallery, Millbank SW1: Sculptors' Drawings presented by the Weltkunst Foundation, until October 30. The Wilkie Gift, until August 21.



'Study for Torso', 1987, by Stephen Cox in the sculptors' drawings exhibition

Theatre

Two Weeks with the Queen



Tamblyn Lord as the irrepressible Colin in Alan Ayckbourn's production

Speaking of the blitz, the film director Jean Renoir observed that it would have been impossible to make a movie like *Brief Encounter* in Hollywood. What Hollywood needed, he opined, was a few bombs dropped on it.

The same ungenerous sentiments occur to me every so often when I see a bland, bright, bumptious assertion of the current Australian self-confidence that by implication patronises, blames or simply discounts the old country. Not that I wish anyone to suffer, least of all the culture that gave Rupert Murdoch and *Neighbours* to the world, but an awareness of the complexities, subtleties and agonies forming a national identity would not come amiss.

These curmudgeonly musings are prompted, doubtless unfairly, by *Two Weeks with the Queen*, a good-hearted and well-intentioned piece for children at the Stephen Joseph Theatre in the Round, Scarborough. You can tell that Alan Ayckbourn is the director since the nasty characters come more horribly to life than the goodies. Would that he had written the play as well, but it is adapted by Mary Morris from a novel by Morris Gleitzman, ex-pats both, long since settled in the Antipodes.

Young Colin is sent to stay with his English relations when his brother Luke is fatally stricken with cancer. His innocent frankness in referring openly to the big C provides a lesson to the evasive adults; and he himself grows up a little after wild schemes to intercede with the Queen and fly the best doctor in the world back to Oz to cure his brother. He befriends a gay couple, one of whom is dying of a newer and deadlier plague; and even manages to breathe some gumption into his pampered hypochondriac cousin, a lumpish wimp with psychosomatic dandruff.

The six-strong company plays 28 roles, setting up some sort of speed record for quick costume changes as the action whisks us from Australia to English suburbia via an airliner, not to mention sundry hospitals and Buckingham Palace. Roger Glossop's design centres ingeniously on what look like crates; their lids and sides open like flaps on which are the necessities for scene-changes – toys, books, cushions, plants. The plot's swifter moments (there are at least two in the first half) whizz by with tinkling piano accompaniment and flickering lights as in a silent film.

Unfortunately, for an adult audience it all seems protracted and predictable. The play comes to life with the nerdish English uncle and aunt who might have come from an Ayckbourn play, or even Mike Leigh.

With their pea-sized imagination, a patriotic pride in "the biggest hardware centre in Greater London", the cultural identity of a shopping mall, knee-jerk prejudices (anti-monarchists, take note of how the production has its cake and eats it) and terminal mean-mindedness, they seem a pretty good symbol of Britain today. Philip Bird and Sophia Winter must get their teeth into real Ayckbourn roles as soon as possible.

But then so should Dorothy Atkinson (specialising in startled nervousness), Peter Forbes (saddled with an improbably nice gay character) and Sean McKenzie, who makes the naff cousin's revolt against his parents almost cheer-worthy.

But the show depends on Tamblyn Lord, who created the part of Colin in the Sydney world premiere. Irrepressibly optimistic, touchingly cheerful, exhaustingly (for this spectator at least) boyish, he even manages to silence our puzzlement at Colin's supposed age (anything from eight to 18, to judge by his mixture of the naive and the resourceful). It's enough to make you want to run out and stamp on a koala.

Martin Hoyle

At the Stephen Joseph Theatre until Sept 10, then to the National Theatre

Edinburgh Festival/**Richard Fairman**

Runnicles opens with Mahler's 8th

It seems to be a tradition that the Edinburgh Festival should open with a concert that has a strong Scottish content. There have been occasions in the past when this has looked like a duty to be performed as quickly as possible before the real festival gets underway, painless enough if washed down with a dram of whisky – but not this year.

With evident delight at its good fortune, Edinburgh has awoken to the fact that it is the birthplace of one of the world's foremost younger conductors. For 15 years or so Donald Runnicles has learnt his craft in the opera houses of Europe, progressing from Freiburg to Vienna and Bayreuth, and from there to San Francisco, where he is now Music Director. With such a prestigious curriculum vitae he has certainly earned his place heading the opening night of his home city's international festival.

Among the Scottish contingent, another body which has won a regular slot for itself is the Edinburgh Festival Chorus, so most opening nights are choral. This year's choice was Mahler's Eighth Symphony, conceived on such a massive scale that it can hardly fail to provide a suitably festive start.

At the Usher Hall, neither the playing of the Royal Scottish National Orchestra nor the choral singing (including the RSNO Junior Chorus) was unfailingly tidy, but there was a thrilling overall arc to the performance. After Tennstedt's renowned Mahler's Eighth in London one came out feeling that one had penetrated some deep inner conviction of the composer, whereas here any time for communing was swept aside by elation and sheer excitement. Even the slow introduction to the Faust setting tingled with tension, as though Goethe's mountain wilderness was ready to explode with all the new emotions of the romantic era.

Runnicles gave easily the most impulsive performance of the symphony that I have heard. Sometimes this meant making a quick dash for the next climax; more often long passages developed an undercurrent that swept the music irresistibly along, as in the rapturous solos of the baritone Pater Ecstaticus (the strong Gregory Yurisich) and tenor Doctor Marianus (a strained Peter Svensson, wrestling with the impossible).

Among a decent band of soloists there were two fine mezzos in Catherine Keen and Patricia Bardon. Jane Eaglen continues to go from strength to strength, but Janice Watson's Soprano 1 sounded unexpectedly constricted. Susan Chilcott sang a heavenly Mater Gloriosa off-stage; Gwynne Howell lacked incisiveness as the bass.

As the Scottish audience recognised, however, this was the conductor's evening. In everything Runnicles did here – the seething blend of textures, the irresistible flow of energy, the high-octane passion – I heard an inspiring future conductor of Wagner's *Tristan und Isolde*. Now that Edinburgh has a real opera-house, how about a festival production?

Sponsored by Scottish and Newcastle

Musical apocalypse and a biography

***David Murray** reviews John Tavener's Prom commission and Mike Westbrook's modern jazz-inspired opera*

We had two ambitious pieces of music-theatre at the weekend, on Friday and Sunday: respectively Mike Westbrook's opera *Coming Through Slaughter* at the Queen Elizabeth Hall (part of the "Now You See It" non-festival), and John Tavener's Prom commission *The Apocalypse*. The latter had massive, well-rehearsed forces for the Albert Hall – all over it, indeed; Westbrook's piece used just seven singers, a string quartet and a trombone, and still looked a bit starved of rehearsal time (or money, or both). Yet it was easily ten times as interesting.

That was because in his devotion to Russian Orthodoxy, Tavener is more anxious than ever *not* to be "interesting". In this *Apocalypse*, a biblical paraphrase by his spiritual advisor Mother Thekla, the composer himself vanishes. It consists of nine "Ikons of the Revelation", vignettes or summaries from St. John's visionary text, with a prologue and epilogue, and interludes for a string quartet playing slow chromatic *glissandi*.

Every part of it is ritualised: the plain choral chanting or shouting, the soloists' roles (sometimes monotone declamation, more often up-and-down scalic lines ornamented with Byzantine melismata), the bursts of heavy brass or gongs and tam-tam from the top gallery. Nearly all the music is very slow. The effects are less dramatic than starkly heraldic – or "iconic", I suppose; nothing develops. It took two-and-a-quarter hours, without an interval.

In short, unearthly peace reigned while we were invited to meditate upon the devotional words. ("A wonder in Heaven! A great red dragon – Seven heads, ten horns. And he waits to eat up the child.") Tavener's work has been confined to deciding how to organise and divide the text between his performers and their prescribed manners, and to finding suitable sonorities for weighty moments and for punctuation. The composer is never heard to intervene; no personal accent is detectable, not even the self-effacing winsomeness of *The Protecting Veil*, his unexpected hit in the 1989 Proms.

Richard Hickox conducted the City of London Sinfonia, the Sinfonia Chorus and the New London Children's Choir with loyal efficiency. Among the many soloists, Thomas Randle's tenor St. John was unflaggingly fervent, Patricia Rozario and Ruby Philogene melting (as the Woman Clothed with the Sun and the Whore of Babylon), the counter-tenors Christopher Robson and David Hurley coolly stylish. To "review" this music as *music*, however, would be to review the mere scaffolding for something else.

Westbrook's modern-jazz-idiom opera has nothing in common with *The Apocalypse* but its length (and to a lesser extent, its slow tempi). It was inspired by Michael Ondaatje's fictional biography of "Buddy" Bolden, a jazz cornettist of such early vintage that he left no recordings, and about whom there are few established facts. After bursting a blood vessel in his last Easter Parade in New Orleans, he was declared insane and lived in a state hospital for his last 24 years, working as a barber.

Ondaatje imagined the rest, and Michael Morris has drawn on the novel for a chain of 16 encapsulated scenes-from-the-life. Most of those amount to poetic solo songs, bluesy in Westbrook's modern vein (jazz-chromatic, doleful or wry); there are a few ensembles which raise the pulse. The overall effect is quite like Weill's original *Mahagonny Songspiel*, with the difference that where *Mahagonny's* characters are symbolic stereotypes, Westbrook's are treated as historical people with unseen histories.

Morris's economical staging, constrained further by the singers mostly having to sing from their scores, left a lot to be taken on trust (or read up from the programme-note). One would like to see the piece more vividly set out in, say, the Donmar. It has no routine or negligible number, and the best of them are strongly inventive.

The cast were first-rate: Denise Hector strong and dignified as Buddy's wife, bright Dorothy Ross as his transient mistress, monumental bass-baritone Keel Watson as the old friend who haunts his steps. Above all Wills Morgan's Buddy, a study in charismatic, *angst*-ridden sulkiness and bafflement, also displayed a youthful mastery of articulating his music through his words, and filling the words with sense and feeling. This is a dramatic singer of uncommon promise.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

Concertgebouw Tomorrow: Gerd Albrecht conducts German Youth Orchestra in works by Kirchner, Mozart and Schubert, with viola soloist Wolfram Christ. Fri: Peter Gülke conducts the Brabants Orchestra in Rakhmaninov and Beethoven, with piano soloist Lilya Zilberstein. Sat: Nicholas Carthy conducts Orchestra della Svizzera Italiana in Arriaga, Mozart and Mendelssohn, with contralto soloist Nathalie Stutzmann. Sun: Bella Davidovich piano recital (24-hour information service 020-675 4411, ticket reservations 020-671 8345)

■ ATHENS

ATHENS FESTIVAL
Tonight's performance at the Odeon of Herodes Atticus is Antonios Pantimos' 17th century comedy Fidelity in Love. National Theatre of Greece presents Aristophanes' Plutus on Sat and Sun. Yevgeny Kissin gives a Chopin recital next Mon. Visitors later this month include Seiji Ozawa and the Saito Kinen Orchestra, the Strasbourg Philharmonic Orchestra and the Kirov Ballet (Athens Festival box office, 4 Stadiou Street, in the arcade. Tel 01-322 1459/01-322 3111. Open Mon-Sat 8.30-14.00 and 17.00-19.00, and Sun 10.30-13.00)
EPIDAURUS FESTIVAL
The annual festival of ancient drama in the 1,400-seat amphitheatre at Epidaurus hosts performances of Greek classical drama on most weekends throughout the summer. Cyprus Theatre Organisation presents Aristophanes' The Birds on Sat and Sun. State Theatre of Northern Greece presents its production of the same work on Aug 27 and 28. Peter Hall Company's staging of Aristophanes' Lysistrata ends the season on Sep 3 and 4. Tickets are available daily at the Athens Festival box office (01-322 1459) or at the theatre of Epidaurus on Fri, Sat and Sun (0753-22006)

■ CHICAGO

RAVINIA FESTIVAL
Tonight: George Benson and Manhattan Transfer. Tomorrow and Thurs: Pinchas Zukerman plays Brahms. Fri: Hugh Wolff conducts Chicago Symphony Orchestra in works by Haydn, Saint-Saens, Walton and Elgar, with cello soloist Yo Yo Ma. Sat: Erich Kunzel conducts selections from Andrew Lloyd Webber's musicals, with vocal soloists. Sun: Natalie Cole. The festival runs till August 28. Ravinia is situated in Highland Park, within easy reach of downtown Chicago by train, bus or car. To order tickets by phone, call 312-ravinia. Outside the metropolitan Chicago area, call 1-800-433-8819. Tickets can be ordered by fax 24 hours a day: 708-433 4582.
LYRIC OPERA
The 1994-5 season opens on Sep 17 with Boris Godunov, staged by Stein Winge and conducted by Bruno Bartoletti, with a cast headed by Samuel Ramey. The season also includes The Rake's Progress, Fedora, Il barbiere di Siviglia, Capriccio, Candide, Aida and Siegfried (312-332 2244)

■ COPENHAGEN

Tivoli Tonight: Carl Nielsen Quartet and friends play chamber music by Schubert and Brahms. Tomorrow: Amalfi Piano Quartet. Fri: Manfred Honeck conducts Danish Radio Symphony Orchestra in works by Haydn, Mahler and Tchaikovsky, with soprano soloist Randi Stene. Sun: Lorin Maazel conducts Pittsburgh Symphony Orchestra in Beethoven, Penderecki and Ravel (Maazel conducts a second programme next Tues). Next Mon: Marcello Viotti conducts Tivoli Symphony Orchestra and Chorus in concert performance of Rigoletto, starring Renato Bruson, Vicente Ombuena and Valeria Esposito. The summer concert season runs till Sep 18 (3315 1012)

■ LONDON

THEATRE
● The Seagull: Judi Dench heads a splendid cast in Pam Gems's new version of the Chekhov play (National 071-928 2252)
● Saint Joan: Imogen Stubbs is the soldier-saint in this fine staging of Shaw's wordy but gripping chronicle play (Strand 071-930 8800)
● King Lear: Christopher Robbie has taken over from Robert Stephens in the title role of Adrian Noble's brilliant RSC production. In repertory with The Tempest featuring Alec McCowen and Simon Russell Beale (Barbican 071-836 8891)
● The Cryptogram: Lindsay Duncan and Eddie Izzard star in David Mamet's tremendous new play about betrayal (Ambassadors 071-836 1171)
● The Miracle Worker: Jenny Seagrove is the beautiful heroine in William Gibson's well-tailored tear-jerker about the blind infant Helen Keller (Comedy 071-369 1731)
● The Queen and I: Pam Ferris plays the Queen in Sue Townsend's stage version of her bestselling novel, which places the Royal Family on a housing estate (Royal Court 071-730 1745)
● Arkadia: Tom Stoppard's complex and often enigmatic play is a great comedy for the mind and the heart (Haymarket 071-930 8800)
● Dead Funny: Terry Johnson's brilliant, elegantly-acted comedy about marriage among the emotionally retarded middle classes. Zoe Wanamaker heads the cast (Vaudeville 071-836 9987)
● An Inspector Calls: the National Theatre's multi-award-winning production of J.B. Priestley's psychological thriller, directed by Stephen Daldry (Aldwych 071-836 6404)
● She Loves Me: a delightful West End transfer of Scott Ellis's Broadway revival of the charming 1963 Masteroff, Bock and Harnick musical (Savoy 071-836 8888)
● Crazy for You: after more than a year in the West End, Gershwin's lavish romantic musical still bursts with energy, humour and style (Prince Edward 071-734 8951)
● Fiddler on the Roof: Topol plays his alter ego Tevye in this short season of the Bock and Harnick musical (London Palladium 071-494 5021)
THE PROMS
Franz Welser-Möst conducts tonight's Viennese programme, with soprano Felicity Lott. John Eliot Gardiner conducts the Orchestre Revolutionnaire et Romantique and Monteverdi Choir tomorrow in Beethoven's Fifth Symphony and Mozart's Mass in C minor, with soloists including Sylvia McNair and Anne Sofie von Otter. Thursday's Prom is a semi-staged performance of the Glyndebourne production of Yevgeny Onegin, conducted by Andrew Davis. Davis also conducts a tribute to Henry Wood on Fri, with a starry line-up of vocal soloists for Vaughan Williams' Serenade to Music. Carlo Maria Giulini conducts the European Community Youth Orchestra on Sat, and Alexander Lazarev conducts a Tchaikovsky Night on Sun (071-589 8212)

■ OSLO

Konserthus Thurs Fri: Mariss Jansons conducts Oslo Philharmonic Orchestra in works by Sibelius and Shostakovich, with violin soloist Arve Tellefsen. Jansons also conducts the orchestra's 75th anniversary concerts on Sep 22 and 23, devoted to Schoenberg's Gurrelieder (tel 8103 3133 fax 2283 0793)

■ STOCKHOLM

Drottningholm Youth and Folly, an early 19th century Singspiel by Edouard Du Puy, returns next Tues in a production by the Royal Opera. There will be a further six performances before the season ends on Sep 10 (08-660 8225)

■ VERONA

The season of open-air opera performances in the Arena runs till Sep 3. Nabucco joins the repertory on Thurs, with a cast including Monica Pick-Hieronimi and Renato Bruson. Elizabeth Connell sings the title role in Norma (Aug 19, 27). Otello (Aug 25, Sep 1) has a cast led by Vladimir Atlantov, Daniella Dessi and Giorgio Zancanaro. There are also performances of La boheme and Aida (045-590966)

■ WASHINGTON

● This week's Wolf Trap programme begins tomorrow with the Righteous Brothers, followed by the Wolf Trap Opera Company's production of Die Zauberflöte on Thurs and Sat, and Nanci Griffith on Fri. Aug 23, 24: Miami City Ballet. Aug 25: Willie Nelson. Aug 26: Manhattan Transfer and George Benson. Aug 30-Sep 4: Carol Channing stars in Hello Dolly (703-255 1860)
● Night of the Iguana, Tennessee Williams' passionate drama set in a Mexican resort, opens tonight at Olney Theater and runs till Sep 11 (301-924 4485)
● The main summer show at the Kennedy Center is Miss Saigon, the musical love story set during the Vietnam war. Daily except Mon (202-467 4600)

ARTS GUIDE
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Wednesday: Festivals guide.
Thursday: Festivals guide.
Friday: Exhibitions Guide.

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NBC/Super Channel: FT Reports 1230.
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Euronews: FT Reports 0745, 1315, 1545, 1815, 2345
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FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030
SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Clever trick but the cracks remain

PERSONAL VIEW

The privatisation of the water industry was, and remains, the least popular and most problematic of utility privatisations. In the first comprehensive regulatory review, Ian Byatt, water industry regulator and former Treasury civil servant who has become the most respected of public utility regulators, seems to have pulled off the trick of simultaneously satisfying water companies, consumers and the stock market.

Water bills should rise by far less in the next five years than in the last, and yet water share prices emerged at the end of July with substantial pluses across the board.

But this has been achieved by papering over some of the large cracks in the structure of the industry. The most important of these cracks is the divorce between economic regulation and environmental regulation - between the determination of what water quality standards should be and how they should be paid for.

This divorce seems to have much to commend it. We all want our water to be safe, and what it costs should always be secondary. This is not the subject of concern - the days when you risked contracting cholera or typhoid from British drinking water disappeared a long time ago.

What is at issue is whether concentrations of pesticides, already far below levels at which there is any likely danger to health, should be reduced further - from one thimbleful per swimming pool of water to one teaspoonful.

Excessive quantities of nitrates in water can cause blue baby syndrome. But the incidence of this is negligible and the last case occurred more than 20 years ago. We can be less sanguine about the ways we dispose of our sewage.

So how much should we be expected to pay for higher quality standards? In other markets, such as the car or holiday market, people make up their own minds - a Rolls Royce for some, a Lada for others; you can visit Montego Bay while I go to Blackpool.

In the water industry, the archetype of natural monopolies, the quality of water supplied is the same for everyone. You can ask some people what they want, but only those who have undertaken their own extensive research would find it easy to answer the question: What price would you pay to have x mg of nitrates per x litres of water rather than y mg?. Nor is it clear how you would analyse the different answers. The exercise in customer consultation which the Office of Water Services required the water companies to undertake - the preparation of a "market plan" for a product for which there is no competitive market - does not seem, in the end, to have led very far.

If we bathe in dirty water, that's our business; Brussels fining us for it only adds insult to injury

Most people's answer to the question about spending £x to have x mg of nitrates per 1,000 litres of water rather than y mg would be: "Someone qualified should decide that."

The basic weakness of the existing structure is that there is no one with responsibility for posing such questions or implementing the results.

Water quality standards are imposed by the European Union with virtually no regard to, and certainly no knowledge of, what the likely cost implications are for the countries on which they are imposed.

EU involvement in all this is a piece of pure opportunism. In the 1980s, Brussels saw a chance to seize the moral high ground from member states by aggressive and populist promotion of environmental standards. It is, as a matter of fact, difficult to think of a better issue for the application of subsidiarity than water quality. If we choose to drink and bathe in dirty water, that is really our own business, and for Brussels to fine us when we admit to doing so is only to add public insult to private injury.

But whether it is sensible for the EU to be concerned with these matters or not, it is the EU which has control of the standards, and they are enforced in the UK by government agencies which have no real discretion in implementation of the rules.

The economic regulator - Ofwat - has to reconcile its obligations to ensure the proper financing of water company functions with tariffs that customers can afford and are willing to pay.

The answer Ofwat has adopted has been to squeeze all expenditure that is not legally necessary to keep rises in charges within acceptable levels while meeting EU requirements.

In the south west, where the cost of waste water standards is greatest, this objective cannot be squared. In the rest of the country, other kinds of investment - to meet growing water demand, in security and replacement - have been arbitrarily cut back.

This may matter to customers, but no-one has asked them.

The principal argument for water privatisation was that it would allow a more rational approach to investment planning.

It was intended to be an antidote to the decades in which those in the water industry put forward ambitious plans for capital spending which were successively squeezed by a Treasury anxious to keep the charges down and avoid burdens on taxpayers.

Five years on, substitute Ofwat for Treasury: otherwise, nothing much has changed.

Prof John Kay

John Kay is chairman of London Economics and Professor of Economics at the London Business School

Advertising agencies, wiser after the 1980s' binge, have turned the corner, says **Diane Summers**

After the party, it's back to basics

Maurice Saatchi may not know it, but in the past few days there are those in the City of London who have bestowed on him a symbolic significance as the first cuckoo of the advertising industry's spring.

For much of the wintry 1990s, the chairman of the world's highest-profile advertising group (though these days far from its largest), has delegated to his henchmen the task of briefing City observers on the group's relentlessly poor performance.

Last week, at briefings on the group's interim results, Maurice Saatchi took centre stage, flashing up slides showing impressive upward-rising trend lines. "His appearance is as good an indicator as any of an upturn in the sector," said one industry expert.

Apart from this personal appearance there are other, more conventional, signs that advertising - which paid with a huge hangover for its excesses in the 1980s - is getting ready to party again.

Zenith, the media-buying company owned by Saatchi & Saatchi, sees worldwide advertising expenditure growing, at current prices, by 5.5 per cent this year, compared with 3.4 per cent in 1993. In December, Zenith forecast that 1995 advertising expenditure would grow by 6.5 per cent; its latest estimate is 7.4 per cent growth. Similarly, the forecast for 1996 was uprated this month from 7.2 per cent to 8.8 per cent.

This growth level will not be geographically uniform, however: Europe is expected to see 8.1 per cent growth in 1995 and 9.7 per cent in 1996; the US, 4.1 per cent next year and 4.4 per cent in 1996; and Japan, 1.4 per cent for 1995 and 2.4 per cent the following year.

Saatchi set the trend in March, when it announced it had returned to the black, for the first time since 1988, in its full-year results for 1993; last week's first-half figures showed pre-tax profits up 68 per cent to £15.3m. At WPP, the agency which supplanted Saatchi as the biggest in the world and which also announced its interim results last week, pre-tax profits rose 50 per cent to £36.2m.

But not everyone is getting excited. Mr Martin Sorrell, the ex-Saatchi finance director who now heads WPP, flatly refuses to exaggerate the industry's prospects. He says if the company's performance for the first six months of this year is examined, there has been "continued significant growth in Asia Pacific and Latin America, in the UK, and a small pick-up in continental Europe. The bottom line is it's better than it has been."

As Mr Sorrell says, advertising spending has lagged the wider upturn in the economy. The advertising cycle is an exaggeration of the economic cycle, says Ms Lorna Tilbian, media analyst with S G Warburg Securities, the investment bank. "It always grows faster than the economy at the top and always falls further than the economy at the bottom," mainly because it is a variable, rather than a fixed cost.

Before the last recession took hold in the early 1990s, the industry believed it had gained immunity from malaises afflicting the wider economy. It was the 1981 recession, which was largely confined to manufacturing rather than service industry, which gave rise to this belief.

According to Mr Neil Blackley, media analyst with Goldman Sachs, the US investment house, in the 1980s many in the industry believed that companies had "understood the defensive imperative of continuing to advertise through the recession in order to protect market share".

From the early 1980s until 1989, Ms Tilbian says the advertising industry was "one big jamboree. It was acquisitions every month and all in different geographical areas and in different related services". WPP and Saatchi paid inflated prices for US agencies, acquiring huge debts to fund the acquisitions.

The event that sums up the era was Saatchi's abortive bid for Midland Bank in 1987. "Everybody talks about the bid as the time when the business was at its maddest," says one industry observer. "Its delusions of grandeur were such that, as a simple service business, it could bid for one of the clearing banks, and actually expect to be taken seriously. And for a moment it was." Midland, roughly twice as big as Saatchi, rejected the idea out of hand.

Unlike the recession of a decade ago, the 1990s downturn sank many in the sector. Saatchi and WPP are only now getting debts down to manageable proportions. From having operating margins of a high of more than 13 per cent in the peak year of 1988, Saatchi reached a trough of 2.3 per cent three years later. The broad thrust of the restructuring at both Saatchi and WPP has been to cut jobs, reduce costs and sell non-core businesses acquired during the jamboree. These moves combined with the more recent increases in revenes should bring margins at both groups back up to 10 per cent by 1996.

Given these signs of advertising's recovery, could the whole giddy process of boom and bust start again? No chance, is the consensus. For a start, advertisers have learnt certain lessons during the lean times which they will want to continue to apply.

For example, a recent survey conducted jointly by the Financial Times and the Institute of Practitioners in Advertising, among chief executives and finance and marketing directors, found a sharper scrutiny of budgets and a greater demand for accountability from advertising agencies.

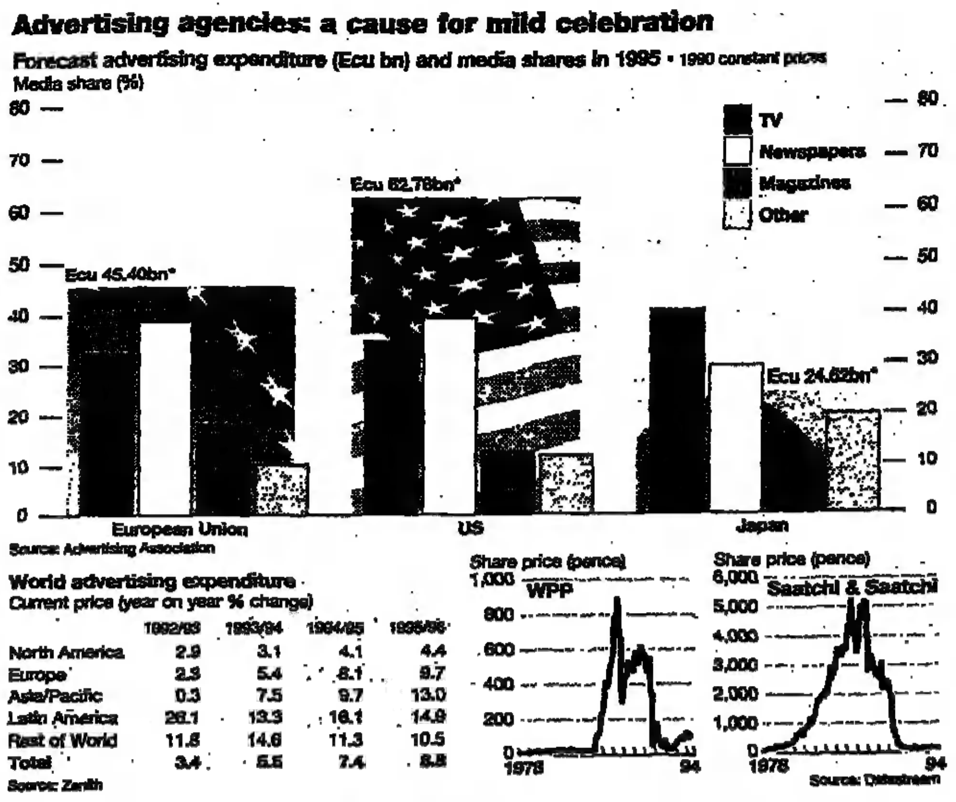
Perhaps the most significant change of all, which will prevent the windfall profits that advertising saw during the last boom, is the change in the way agencies are remunerated. Commission of 15 per cent on a client's media spending used to be the norm. A survey by specialist UK advertising accountants Willott Kingston Smith recently found that agencies are now about as likely to get their income from fees as commission in the UK, and the picture is likely to be much the same in continental Europe and north America.

Overall, the move from fees to commission is seen as a stabilising factor by Andrew Brown, director-general of the UK's Advertising Association, the industry umbrella organisation. "The commission system has swings and roundabouts. Agencies do well on the commission system when the business is doing well. In times of recession, agencies would prefer to be on fees," he says. Some way has to be found to allow agencies to run themselves more sensibly, avoiding the huge ups and downs, he adds.

Finally, Ms Tilbian of S G Warburg Securities, argues that, this time round, agencies will be forced to "stick to the knitting". No more will they be able to persuade the City that the dreaded word "synergy" has any meaning in the sector. It was synergy which was supposed to have justified the binge of acquisitions by agencies of management consultancies, public relations firms, recruitment agencies - and even Saatchi's assault on banking. The synergies proved illusory and many of the businesses have since been sold off.

"At the end of the day you're as strong as your weakest link when you try to sell all your services to your clients," says Ms Tilbian. "If one of them botches up, then you could lose your most valued business. For advertising, it's back to basics."

Advertising agencies: a cause for mild celebration



World advertising expenditure
Current price (year on year % change)

	1992/93	1993/94	1994/95	1995/96
North America	2.9	3.1	4.1	4.4
Europe	2.3	5.4	8.1	9.7
Asia/Pacific	0.3	7.5	9.7	13.0
Latin America	26.1	13.3	16.1	14.9
Rest of World	11.8	14.6	11.3	10.5
Total	3.4	5.5	7.4	8.8

Source: Zenith

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Risks of Mercosur deal slight

From Mr Alan Sinclair.

Sir, The flaws you point to in the recent Mercosur agreement (Editorial: "Freeing Latin American trade", August 9) may not be as obvious as you make out.

While Argentina has agreed to raise tariffs on capital goods to 14 per cent as a concession to Brazilian demands, in exchange Brazil has agreed to lower tariffs from 20 to 14 per cent. Since Brazil's economy is roughly twice that of Argentina's and its ability to absorb imports proportionately higher, one may take the view that the effect of the agreement on access to the joint market will not have changed very much. Moreover, Brazil's own economic policies have led it to reduce its tariffs and open up its market to imports over the past four years. One may expect it to abide by the recent agreement and continue the trend with its Mercosur partners not only as an extension of the existing policy, but also as a result of pressure from Argentina, which will not want to see back-peddling on the deal. The pressures on Brazil will become even greater if the most committed of the free marketeers in the area, Chile, joins the group.

Bilateral trade between Brazil and Argentina has increased more than fourfold since 1990. Over the same period Brazil's trade with the rest of the world has also been rising, and its trade surplus of more than US$1bn a month maintained. Surely this is the best evidence that Mercosur will not lead to inwardness.

The risks that the members may be led to believe they have an alternative to global competitiveness and that the agreement may make regional integration more difficult is, I would have thought, slight.

Alan Sinclair,
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45 Gr 1006,
Botafogo 22270-000
Rio de Janeiro,
Brazil

Many 'food miles' apart

From Mr Hugh Raven.

Sir, You report (Management: "Granting an end to the Food Trade Gap", August 11) "a breakthrough for the UK's vegetable industry" in the form of lettuces and celery from Cambridgeshire being exported to Belgium. In April, you reported on a 50-fold increase in the past 10 years of imports of lettuces from Spain.

The absurdity of this reflects the perversity of the UK's response to its trade gap in food and drink - a rising proportion of which is accounted for by foods which could be produced domestically. The Ministry of Agriculture and its agency Food From Britain have said the gap should be closed via export promotion rather than import substitution. One of the many consequences has been an increase in the distances food is transported. According to Department of Transport, in the 15 years to 1990 more than a third of the increase in demand for freight was accounted for by food, drink and tobacco - which account for well under a sixth of the UK economy.

Those who worry about air pollution, congestion and new roads should ponder these increasing "food miles" when deciding what to buy on their next trip to the supermarket.

Hugh Raven,
SAFE Alliance, 38 Ebury Street,
London SW1 0LU

Consultants net savings

From Mr J Blanchard Smith.

Sir, I must agree with the title if not with the content of "Surprising claim about market testing in efficiency study" (Letters: August 9). The fact remains that value for money has been achieved with the use of external consultants. The taxpayer has seen a net saving on a range of projects through the use of outside consultants.

Furthermore, many agencies compete and succeed in attracting private sector work through increased efficiency as a result of the implementation of consultants' recommendations. There will be consultants who do not achieve the quality or results required and they will not be used again - an option not available with permanent departments.

An undertaking of the stature of the Market Testing Initiative should be judged objectively and as a whole, and not, as seems to be the fashion these days, be subject to sound bites taken out of context.

Should a sound-bite be required, however, the following, drawn from the Efficiency Unit scrutiny report, may be useful: "Our scrutiny has left us in no doubt that consultants have, and will continue to have, significant 'added value' to contribute to departments and agencies."

Jonathan Blanchard Smith,
publisher,
Wickham House,
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London E1 4TR

Trying to achieve linguistic purity can be a laughing matter

From M S Chandramouli.

Sir, The brouhaha about the *Loi Toubon* ("The French choose their words carefully", August 6) reminds me of the time that Hindi zealots in my native India ran amuck.

Notably, public institutions were enjoined to have someone write up, on a *daily* basis, a "word for the day" on stripboards put up at various points in the building. The "telephone" became (in translation) a "distant talker". And further shenanigans to this effect. The *positive* side of the whole affair was that more people than usual started smiling, and linguistic "purity" started dissolving in guffaws while people went about the ordinary business of communicating with each other according to their natural compulsions.

If the French politician is not careful, he might succeed in prompting the comment that while the French are a great people, the only problem is they speak a language called French!

M S Chandramouli,
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4020 Liège,
Belgium

Military interests don't belong in politics

From Mr Ian Campbell.

Sir, Readers concerned about developments in West Africa will welcome the balanced approach and relevant conclusions of your editorial, "Time to help Nigeria" (August 3).

As you pointed out, it is for Nigerians, soldiers and civilians, to resolve the present crisis. This does not exclude appropriate measures by British and other governments to ensure a speedy end to military rule and installation of a civilian coalition under Chief Moshood Abiola as president. He was the victor of the presidential election, organised on June 12 1993 by the military regime.

His alleged "treason", resulting in arrest and trial, derives from the fact that he won the contest, against the preferred candidate of the military leadership, while his Yoruba affiliations aroused misgivings in parts of the north. He won a clear majority in Kano State, home to the opposition candidate and also to General Sani Abacha, current head of state.

After a year that has seen the military reject the election results, then "withdraw" only to resume power shortly afterwards, Abiola has recently asserted his right to assume the presidency under the military-approved constitution.

At the time of the election his support bridged the religious and ethnic divisions within the country. His insistence on a negotiated outcome and his rejection of violence has kept open the possibility of peaceful compromise. I have recently returned from South Africa and your comparison with the successful transition in that country is apposite.

The military will best serve its own interests and those of Nigeria by distancing itself from politics, as in 1979, and giving loyal support to an incoming civilian regime, restoring the freely elected legislatures, state and national, as well as the elected state governors. The new regime would be transitional only in the sense that, after a suitable interval, two or three years, new elections should be held but no longer restricted to only two parties.

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FINANCIAL TIMES
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Tuesday August 16 1994

Midsummer Blair-mania

Mr John Major is still prime minister of the United Kingdom. It is probable that he will remain in the post until the next general election, which need not be held until spring 1997. The outcome is unpredictable: the Conservatives are capable, given the will, of winning again.

These statements of the obvious should serve as reminders that the upsurge of sympathetic interest in the Labour party under Mr Tony Blair, its new leader, could be a midsummer bubble. Even if that is not so, Blair-mania is out of proportion. Mr Rupert Murdoch has famously said that he could imagine circumstances in which he, and presumably by extension some of his newspapers, might support Mr Blair. The polls register improbable leads for Labour. Some business leaders are looking afresh at the opposition.

In consequence, there is a sense that the period of Conservative rule that began in 1979 is drawing to a close. The electorate is disenchanted with the Tories. There is no need to draw on anecdote or the polls to demonstrate this. It has been shown in successive by-elections, local council contests and the poor performance of Conservative candidates for the European parliament.

The government's ill-fortune persists, as shown by Mr Michael Portillo's imprudent and hasty acceptance of legal advice that European Union legislation on subsidised public procurement contracts necessarily excludes favourable treatment for disabled workers. The just-promoted employment secretary may be correct in law, and a doughty Eurosceptic, but he is wrong in politics. The administration is still walking on banana-skins.

What is questionable is the degree of lasting, solid support for Labour. The hard evidence – votes cast in recent elections – is that the party is not doing any better than might be expected of it in mid-term, and rather worse, considering the level of unemployment and the contempt in which the Conservatives are held, than it should. The Labour leader is untried. He is a telegenic, well-spoken politician whose first appearances have held out much promise. That is all. He has many tests ahead. He must manage, and survive, his party's autumn conference. He has yet to appear in parliament as leader of his party. The voters will want to see how he performs under fire.

In the longer run the electorate will need to be convinced that the Labour party itself has changed. There are already left-wing rumblings against Mr Blair's non-socialist precepts. These can be ignored, provided the mainstream of party thinking is running in the right direction. The new leader's unique selling point, that the support of the community strengthens the individual, has to be translated into a programme. The election manifesto, when it comes, must be costed, the tax implications worked out, and the whole sold to a public that is wearily sceptical of all political blandishments. Then, and only then, will a change of government be likely.

Logic rules, OK

The rash of takeover activity that is spreading across the English-speaking economies could hardly be more different from the previous bid flurry in the late 1980s. Today's mergers and acquisitions are not driven purely by financial logic; nor, again, by the machinations of junk bond operators. The conglomerate tendency that marked so many takeovers in the 1960s is largely absent. What we have in both Britain and the United States is a boring, plain-vanilla takeover surge, chiefly characterised by an outbreak of industrial logic.

In the US, the rationalisation of the pharmaceutical, rail and defence industries is largely being driven by takeovers. Often bids constitute a response to regulatory change, such as the Clinton healthcare programme, or to perceived opportunities thrown up by new technology, as with the heady battle for Paramount Communications.

In Britain, too, regulatory change has spurred rationalisation in the independent television sector, while the deferred Lloyds Bank marriage with Cheltenham & Gloucester could be categorised as a late response to the lowering of the statutory ring-fence that surrounds the building society movement. As for the Commercial Union-Victoire deal, it partly reflects the changing structure of the European single market in insurance. In contrast, unadorned commercial logic explains Tesco's offer for the Scottish food retailer William Low, which inhabits a part of the country in which Tesco is under-represented.

Can sweet reason continue to prevail against the natural instinct of investment bankers to urge the marriage of the incompatible with the unmanageable? Probably not, given the fat fees involved. In the US the pace is already intense: at the present rate the value of takeovers in 1994 will exceed $200bn before the year end. Managers who are inadequately accountable to shareholders are always tempted to swallow the investment bankers' bait because size can bring higher pay, pensions and kudos regardless of industrial logic. Commercial banks are also flush with money to finance new bids.

Sure enough, the bid premia are already looking skyward. American Home Products' recent $8.5bn cash bid for American Cyanamid was pitched at close to 50 per cent above the prevailing market value. In outbidding fellow food retailer J. Sainsbury for William Low, Tesco was hardly erring on the side of parsimony. And the battle for Paramount was a classic tale of corporate egos writ large.

Tougher acquisition accounting will in due course help curb over-enthusiastic bidders. Still more desirable would be a requirement on directors to submit bids over a certain size to shareholders for approval. American Home Products' offer was even made before sanction from the full board. The links in the chain of accountability from executives to shareholders are urgently in need of repair.

Paris and Algiers

During the past month the situation in Algeria has continued to get worse, and France has become more deeply embroiled in it. On August 3, five French citizens were killed in Algiers, in an attack for which the Armed Islamic Group (GIA) claimed responsibility. The GIA is a radical group which has been winning supporters from the Islamic Salvation Front (FIS) since 1992, when the army intervened to cancel elections in which the FIS was about to win an overall majority.

The killing happened in Algeria, but the French government reacted by clamping down on suspected Islamic militants in France. At the same time Mr Charles Pasqua, the French interior minister, complained that other western governments had failed to act against people "who claim to be official representatives of the FIS" on their territory – a criticism not surprisingly rejected by the governments concerned.

By arresting Islamic militants in France, Mr Pasqua risks drawing the conflict on to French soil. He has also declared his full support for the regime in Algeria. The choice there, according to him, "lies between the capacity of the present regime to control the situation and the arrival of the fundamentalists in power".

Mr Pasqua thus trespassed on the domain of his colleague Alain Juppé, minister of foreign affairs, whose view of the situation in Algeria is rather more nuanced. A year ago Mr Juppé said that the status quo there was "not tenable", and that security measures alone could not offer a solution. He advocates opening "a political perspective", by preparing for new elections.

He also indignantly rejects the notion that France's position is one of "unconditional support" for the Algerian authorities. But he is not ready to attach political conditions to France's financial aid, by insisting on respect for human rights and a genuine dialogue with all opposition parties, as other western governments have suggested.

France's dislike of violence is entirely justified, and its fear of an Islamic regime in Algeria is understandable. What it has to face up to is that the counter-violence of the present Algerian regime offers no guarantee of avoiding such an outcome, while the longer it goes on the bloodier and more unmanageable the dénouement is likely to be. For that, western governments will share the responsibility so long as they do not make their aid strictly conditional on the start of a political process which offers a credible hope of ending the violence: an amnesty, followed by free elections under international supervision.

Meanwhile, for Mr Pasqua to import the conflict into France, effectively targeting France's largest racial minority, is rightwing populist politics of the worst sort. Race relations in general, and relations between Moslems and other communities in particular, are bad enough in western Europe as it is.

Hazards on the high seas

Traditional methods of guaranteeing maritime safety are proving inadequate, writes **Charles Batchelor**

The Ship that Died of Shame tells the story of a wartime gunboat which is bought by its crew and used for smuggling in peace time. In the novel by Nicholas Monsarrat, subsequently turned into a film, the ship acquires a character of its own and resists the actions of its owners.

In real life, of course, ships do not revolt in this way, though governments and the international shipping organisations charged with maintaining maritime safety might be forgiven for wishing they could. For far too many among the world shipping fleet represent a hazard afloat, and it is not just the ships but their crews and the marine environment which are the victims.

So bad have matters become that national and worldwide regulatory authorities are being forced, as a last desperate measure, to shame shipowners into improving the quality of their vessels.

The UK government this month produced its first monthly blacklist of sub-standard ships docking at British ports. The US Coast Guard, meanwhile, has published a list of 137 shipowners and operators, including some prominent names in the industry, whose vessels will be the subject of special safety checks when they enter US waters.

These actions by the British and US authorities have been spurred by an increasing awareness that the established methods of guaranteeing maritime safety are proving inadequate.

Presenting his report into the prevention of pollution from merchant shipping in UK waters in May, Lord Donaldson, a former senior appeals court judge, spoke of his "astonishment" at the conditions he had discovered and of "the quite appalling record" of defects found on vessels visiting UK ports.

The Donaldson report, *Safer Ships, Cleaner Seas*, was prompted by the sinking of the oil tanker Braer off the Shetland Isles in January 1993. In the 15 months it took the inquiry team to produce its 103 recommendations for safety improvements, no fewer than 67 serious incidents – just over one a week – occurred in UK waters, which could have led to serious pollution.

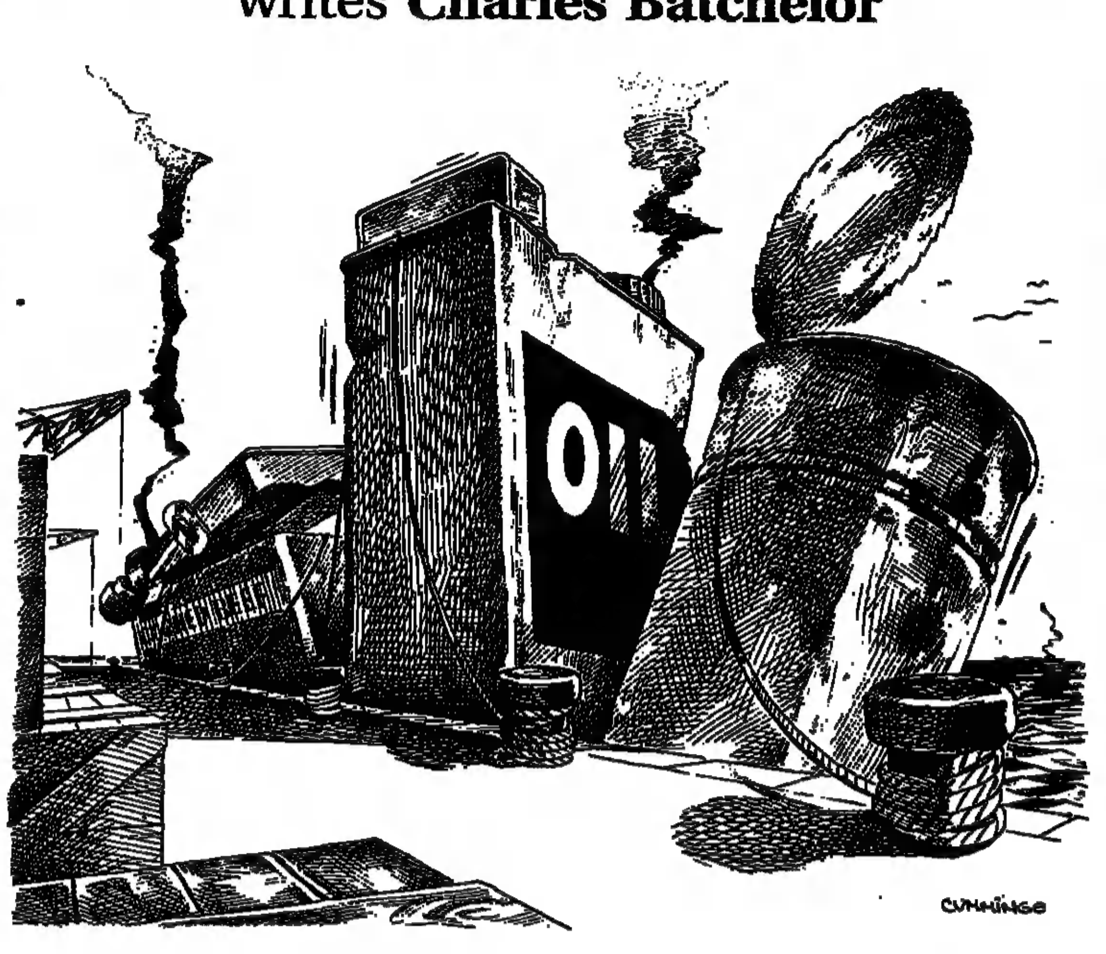
The Donaldson inquiry and recent US legislation were both the result of oil spills – the US Oil Pollution Act of 1990 was prompted by the grounding of the tanker the Exxon Valdez off the coast of Alaska in 1989 – but governments, seafarers' trades unions and the international shipping organisations are concerned not only with environmental dangers but with the broader aspects of safety.

No fewer than 121 ships were lost at sea in 1993, a 9 per cent increase on the year before, leading to the loss of 592 lives or 35 per cent more than in 1992, according to Numast, the international union of ships' officers based in the UK.

The picture presented by the Donaldson inquiry, Numast and the US coastguard is one of the world's oceans criss-crossed by ageing rust-buckets, lurching, and sometimes failing even to lurch, from port to port. The 522-page Donaldson report, includes worrying photographs of badly corroded ballast tanks and rusted support brackets.

Individual shipowners deny that maritime safety is as bleak as critics suggest. "In every sack of potatoes there will be a rotten one but the whole industry is being judged by these exceptions," says Mr Jacob Stolt-Nielson Jr, chairman of a shipping company which operates speciality chemical tankers. The Donaldson inquiry painted too alarmist a picture to grab attention, commented another Scandinavian shipowner.

The International Chamber of Shipping, the London-based association of shipowners, in its latest annual review, points out that 99.9 per cent of the 1.7bn tonnes of oil carried by sea in 1993 reached its destination without mishap. "Merchant ships have been quietly engaging in what they do best, carrying the world's 4.3bn tonnes of seaborne trade economically, efficiently and safely," the chamber says soothingly.



But this gloss on the state of the world's shipping fleet is not supported by the frenzy of activity among the regulatory bodies concerned at the potential environmental disasters and accidents to crew that could be caused by the world's shipping fleet.

They point to a combination of factors which have led to a downward spiral in the quality of ship operations. These include:

- Overcapacity in the world's fleet, which has put fierce pressure on the rates shipowners can demand for their vessels. The owner of a new 250,000-tonne supertanker would need to earn between $30,000 and $50,000 a day to meet his operating and financing costs on his $100m-plus purchase. In recent times he has only been able to earn about $10,000 a day.

"This encourages owners to keep their older ships trading because no one has the capital to invest in new ones," says Mr Julian Parker, secretary of the Nautical Institute, an international organisation representing professionally qualified mariners, such as ship's captains and harbour masters. "There is a downward pressure to lower costs and reduce safety."

- The declining importance of the traditional shipping nations and a shift of both vessel ownership and registration to third world countries, many without established training schemes or the infrastructure to provide a high-class shipping industry.

"Thirty years ago 80 per cent of the world fleet was owned by the traditional maritime nations," says Mr Parker. "There was bags of money, shipowners sat in the House of Lords and everyone operated to a good standard. Then 70 per cent of the fleets began to sail under flags of convenience to save costs." Many of the world's ships are now owned or registered – flagged – in countries with weak regulation. The flag states are responsible for implementing inspection regimes and ensuring a ship's safety.

For some of the smaller or poorer countries with expanding fleets, European or American concepts of safety can appear unrealistic. "If standards are set too high, the poorer countries say they will not be able to trade," says Mr Fernando Plaza, senior deputy director of maritime safety at the International Maritime Organisation, the United Nations agency responsible for maritime affairs.

The inability, and in some cases the unwillingess, of countries to police the ships which sail under their flags, has led to a breakdown in this traditional mechanism for maintaining maritime standards. If the flag state does not insist on a proper technical inspection of its vessels or demand high standards of its crews, an important plank of shipping safety is taken away.

Worldwide regulatory authorities are being forced to shame shipowners into improving the quality of their vessels

Panama heads the table of numbers of ships lost in the first six months of this year, compiled by the Institute of London Underwriters, followed by Cyprus, Malta, Honduras, Indonesia, China and St Vincent and Grenadine. Liberia, which is frequently singled out for criticism and the country of registration for the Braer, lost one ship during the period.

- The mixed quality of the classification societies, the organisations which provide the technical experts to ensure that vessels are well-designed, solidly built and properly maintained. The societies are called in by owners or insurers to evaluate a ship's seaworthiness.

The older-established societies such as Lloyd's Register, Det Norske Veritas and the American Bureau of Shipping have been joined in recent years by a host of newcomers, and there are now nearly 50 societies around the world. Few have the resources to maintain a worldwide network of inspectors, so they cannot always inspect a ship involved in a collision or grounding, and all are under strong commercial pressure to be generous in their ratings.

Even if a classification society is doing its job well, there is nothing to stop a shipowner moving his vessel to a different society, which may not set such high standards and may therefore be cheaper. Though the system is voluntary, insurance would, in practice, be impossible to obtain without a rating.

- The apparent inability of the International Maritime Organisation to act speedily to improve standards. Frustration with the slow pace of reform through the organisation has been a recurrent theme of complaints by individual governments.

"Prolonged debate by member states in committees and sub-committees can imply a lack of urgency or a failure to set adequate or clear priorities," Britain's then shipping minister, Lord Caithness, told an IMO assembly last October. Public opinion concerning safety would not be willing to await "completion of the IMO's deliberations or to accept a long-delayed compromise solution. If IMO and its member states don't act, others will," the minister warned.

The London-based organisation has tried to speed up its procedures in recent years but is limited in what it can do. The IMO is not a political body but is a technical organisation with a mandate to provide the machinery for co-operation among its 147 member states, explains Mr Plaza.

"For some of our members the pace is unbearably quick, for others we are very slow," he adds. The speed of change is determined by the need to reach a consensus among member states and then achieve ratification of a measure by their governments. Obtaining ratification for changes in international agreements by a two-thirds majority can take up to 10 years.

The failure lies not with the organisation for its inability to devise agreements but with member states for failing to implement them, according to Mr Plaza. The IMO is now shifting its emphasis away from writing new rules to making sure its members implement those already in existence.

However, the perception exists that the IMO is ineffective. The vacuum is being filled by individual countries, including the UK and the US, or by larger regional groupings such as the European Union.

The European Commission has been working on a series of proposals to tighten up controls on the industry. These are aimed at setting minimum requirements for seafarers' qualifications, requiring separate ballast tanks so that tankers do not discharge oily ballast water into the sea, and tough controls of vessels docking at European ports.

The International Chamber of Shipping worries about the possible fragmentation of global responsibility for maritime safety. It wants the IMO to retain responsibility for policing the oceans, but fears the Commission "is trying to make a takeover bid". However, an official of DG7, the EU transport directorate, says the Commission is merely trying to give force to the IMO's resolutions, which would otherwise be ignored by its members. "It must all be done within the framework of the IMO," she adds.

Shipowners, too, are anxious that regulation of the industry should remain centralised under the IMO. They point to the US Oil Pollution Act, which has set demanding new requirements for tankers entering US waters and imposed unlimited liability on shipowners whose vessels cause pollution.

One unintended effect of the unlimited liability clause has been to keep some responsible shipowners out of US waters. "The good shipowners can't get the level of insurance cover the US wants, while the lousy ones don't bother," says Mr Mike Plumridge, deputy secretary of the Nautical Institute. "The US could end up with the world's scrapyard ships."

The growing move towards inspection of vessels in the ports where they dock also weakens global regulation of shipping safety. Port state control, as this is known, undermines the supervisory role which should be exercised by the flag state, the country under whose flag the vessel sails.

If inspection moves from the flag states to the local port authorities, it will become difficult to maintain common standards. In some parts of the world, port control could become an excuse for delaying ships unjustifiably to extort payments from their owners. "Shipping is a global industry," says Mr Parker. "Port control could inhibit free trade."

It is this concern to balance the traditional self-regulation enjoyed by the shipping industry with the need to reduce the risks to seafarers and the environment that lies at the heart of current debate.

The industry points out that the openness of the maritime market has produced enormous benefits for the shipper and meant that shipping costs are no higher in real terms than they were 30 years ago. Consumers have also benefited from this cost control.

Resolving the conflicts between flexibility and safety will not be easy and may mean a change in much cherished shipping practices. But it will be difficult to reverse the developments currently under way. Shipowners, it seems, will have to find a way to adapt to a patchwork of regional rules and port inspections.

OBSERVER

Idaho . . .the pot state

■ Northwest Airlines is flying high. Or at least one of its co-chairmen has been. Returning from a rafting holiday in Idaho, Gary Wilson was passing through the security screening point at Boise airport when he was apprehended by security officials puzzled by an X-ray image of an oddly-shaped object in his bag.

On close examination, the object turned out to be a kind of pipe, and with it were 2.7 grams of marijuana. The red-faced Wilson was fined $500 and, on reporting back to Northwest Airlines' head office in St Paul, Minnesota, suspended himself from duty pending an internal inquiry.

In all probability, he will soon be back at his desk. After all, he is more of an investor than an executive; with Alfred Checchi, the other co-chairman, he led a $3.6bn buy-out of Northwest in 1989 which took the airline private. Also, he was off duty at the time, and the airline says that other employees committing comparable misdemeanours have stayed.

Even so, the turn of events has astonished Northwest's staff. Wilson is 54, so hardly falls into the category of the Woodstock generation. "He's the last person you would suspect. He's such a button-down, senior type of person," said one employee. "It just goes to show; you never can tell . . ." Come to think of it, has anyone inspected Sir Colin Marshall's hand-baggage recently?

Chilled out

■ So how was your Woodstock? Bet it didn't come up to the exacting standards of Steven McBride, from Buffalo, who confided to the Washington Post: "Me individually, as an individual, I say we're together, interactingwise. I've met a cop and a robber, a poet and a scholar. Listen, I came here because I generally love people, they amuse the hell out of me . . . Did you ever read Albert Camus? This is *The Stranger*, man, people are getting stranger and stranger, together."

Thingamajig

■ The good news is that Sir William Purves, HSBC Holdings' panjandrum, has finally held his first press conference in London to talk about the profits of his giant banking group which gobbled up Midland Bank some time ago. The bad news is that Sir Willie – who has presented results in his beloved Hong Kong until now – did not let off any verbal fireworks.

Instead, journalists were treated to a benign canter through the figures. Apart from ruminating about what "my old mother in Edinburgh" might think about the group's bond losses and a passing reference to "the governor of the Bank of England, and whatnot", Sir Willie's dry humour was kept under control. An entertaining first outing, but Sir Willie can do better.

'What would happen if two plutonium smugglers ran into each other?'

Suspect job

■ A vacancy has arisen at the very highest level of international terrorism and search consultants have been retained to identify the individual with a unique combination of talents.

The successful candidate must have a wide experience of handling small arms from many parts of the world and knowledge of explosives would also be an advantage. An ability to threaten in several languages is an essential requirement, as is the ability to think quickly and clearly under fire.

Candidates should be of a flexible political disposition and prepared to undertake operations for several interested parties at short notice. A mysterious background which can excite international media attention would also count highly. Don't ring us, we'll ring you.

First abroad

■ Hope Steven Astaire, 42, the fast-talking amateur jockey who runs the family stockbroking firm, Astaire & Partners, has more success with his latest business venture than he does with his gee-gees. Astaire, who has only won six of his 150 races, has scoured the world and decided to open his first overseas office in . . .Israel.

Tel Aviv is not the most obvious first port of call for brokers intent on international expansion. Its stock market does not even rank in the major emerging stock market indices. But Israel is politically stable, under-broked and has lots of wealthy citizens. Throw in the Middle East "peace dividend", and it's worth a gamble.

Astaire, whose uncle Edgar runs a rival firm in London's West End, says he is the first British broker to open in Israel and only the second foreign firm to have a presence. Fear of upsetting Arab clients may have been one reason why the big US firms have shied away in the past. But Lehman Brothers is on its way, so it may not be long before Steven Astaire's aim of making handsome profits in one of the world's last under-broked financial centres turns into a pipe dream.

Starry-eyed

■ The founder of an astrology game called Star Encounters thinks the signs are right for him to realise his fortune with a board game destined to become as much of a household name as Trivial Pursuit. But Ian Adams really should have known better. A quick glimpse at his horoscope would have told him that timing a press conference for 12.52 precisely was a non-starter. On the second day of this week's train strike, will there be anyone there to launch it to?

In the red

■ Barclays Bank, which spent last week trying to fend off a tide of populist criticism about its return to respectable profitability, has evidently nothing more to say. In the window of the clearer's Cheapside branch in the City is an electronic tickertape monotonously flashing what its adversaries would claim they knew already – Empty Message.

FINANCIAL TIMES
Tuesday August 16 1994

Notorious terrorist to stand trial for killings

Carlos 'the Jackal' being held in France

By John Ridding in Paris

Carlos "the Jackal", the guerrilla and kidnapper who is blamed for many of the world's most notorious terrorist attacks over the past two decades, has been arrested and is being held in Paris, the French government announced yesterday.

The capture of Carlos, whose real name is Illich Ramirez Sanchez, is a significant victory in the battle against international terrorism. It marks the end of a bloody chapter of guerrilla attacks, often linked to conflicts in the Middle East, and partly reflects the limited refuge for terrorists following peace moves in the region and the collapse of communism.

The 44-year-old terrorist was captured in Sudan where he was planning operations against foreign interests in the country, according to officials in Khartoum. After his arrest, following a tip-off from the French intelligence services, he was extradited to France yesterday morning and will be brought before judicial authorities on charges of killing French citizens.

The French government sought to capitalise on the arrest. "This proves that the government is determined to fight with all legal means against terrorism and terrorists," said Mr Edouard Balladur, the prime minister.

The crimes of which Carlos is accused include some of the most spectacular guerrilla acts since the mid 1970s, many of which were linked to the Arab-Israeli struggle or the rise of radical anti-establishment terrorism in industrialised nations.

He has been linked to the 1975 kidnapping of 11 ministers attending a meeting of the Organisation of Petroleum Exporting Countries in Vienna. Three people died in the attack and the ministers were taken in a hijacked aircraft to north Africa in a ransom bid. The guerrillas gave up after flying to Algiers and Tripoli, but were allowed to go free within a few days.

Carlos has also been linked to the 1972 massacre of 11 Israeli athletes at the Munich Olympics, the 1974 takeover of the French embassy in The Hague, and the 1976 hijacking to Entebbe, Uganda, of an Air France airliner.

Following his early exploits, the press dubbed him "the Jackal" after the terrorist sent to kill French president Charles de Gaulle in Frederick Forsyth's novel *The Day of the Jackal*.

France has pursued Carlos since the killing of two French counter-intelligence agents in 1975. Mr Charles Pasqua, France's interior minister, said yesterday that Carlos was involved in attacks in France in which 15 people had died. The French minister said Carlos himself had admitted responsibility for the deaths of 83 people throughout the world.

Carlos has eluded escape by moving from country to country, notably Syria, Libya and Hungary, where he was given refuge by the former communist regime in the late 1970s. But since the mid 1980s, Carlos has been less active and found it harder to find secure refuge.

'Ozone-eating' agent made by German chemical group

By Christopher Parkes in Frankfurt

Shares in the German chemicals group Hoechst were invigorated yesterday by news that it had developed an "ozone-eating" filter material with a wide range of industrial and domestic applications – and sales potential of up to DM500m ($318m) a year.

While the maximum local atmospheric concentration of the irritant ozone remained well below recent alarm levels, the Frankfurt-based company's announcement alerted dealers, who marked the stock up DM8.50 to DM356.

According to Mr Andreas Schleicher, manager of the Noxon project, Hoechst is negotiating with around 40 companies interested in applying its ability to convert air- or water-borne ozone into pure oxygen by "eating" the extra oxygen atom in ozone.

Potential partners included manufacturers of filters and air-conditioning appliances for commercial and domestic use and swimming pool and sewage equipment makers.

Hoechst claimed its research had shown Noxon could destroy concentrations of up to 200 grammes a cubic metre – some 1.5m times Germany's recommended outdoor level of 120 microgrammes.

The Hoechst material offered no health risks in itself and had many promising applications in protecting people from ozone's harmful effects, Mr Schleicher said. Ozone can cause headaches and irritate lungs, throat and eyes. Children and the elderly are often especially sensitive.

Hoechst suggested hospitals, old people's homes and schools as likely buyers of Noxon filters and air-conditioners, along with car and aircraft manufacturers.

The company was also working on developing ozone sensors for industrial applications where it was essential to be alerted to the presence of excess gas. Under German law, workplace concentrations may not exceed 200 microgrammes a cubic metre.

Heavy ozone contamination was the focus of Germany's latest environmental controversy when drivers in Hoechst's home state of Hesse were ordered not to exceed 80kmph during the recent heat wave. Fast driving was blamed for an unacceptably high concentration of atmospheric ozone in the state.

World stocks, Second Section

London exchange woos non-UK business

By Norma Cohen, Investments Correspondent

The London Stock Exchange yesterday announced it is establishing its first-ever Global Depositary Receipts programme enabling foreign companies to obtain a full London share listing.

The move is part of the exchange's efforts to market itself to non-UK companies, thus strengthening its role as a centre for international share trading.

Mr Michael Lawrence, London Stock Exchange chief executive, has pointed to the success of US exchanges in attracting foreign companies, particularly those based in emerging markets, to seek listings there.

The success of the New York stock exchange and the Nasdaq stock market in attracting these companies has strengthened the role of the US exchanges in international share trading.

Depositary receipts are sterling-denominated bundles of shares. The number of shares per bundle and the underlying currency will vary with the issuer. The exchange expects the strongest interest in obtaining a listing for depositary receipts to come from companies based in emerging markets.

Yesterday, the Inland Revenue said that unlike trading in the shares of UK-listed companies, depositary receipts will not attract the standard 0.5 per cent stamp duty on each transaction. However, issuers will have to pay stamp duty of 1.5 per cent on all shares transferred into the depositary receipts programme.

The rules are intended to make trading in the depositary receipts competitive with trading costs in the home country.

Listing requirements and fees for those seeking GDR status will be lower than for those seeking an outright London listing, although they will conform to the minimum set out in European Union law. The issuer must have a three-year trading record and, although audited accounts for the previous three years must be presented, the accounts need not be prepared in accordance with international accounting standards, nor need they be consolidated.

The depositary, typically a bank, must be one which is acceptable to the exchange, and there must be at least one firm which agrees to act as market maker in respect of the GDRs.

Continuing obligations include a requirement to notify the exchange in the event of a price-sensitive development and a requirement to release an annual report within six months of the year end. Half yearly reports must be published within six months of the period to which they relate. Initial listing fee is £4,000, ($6,200) with an annual fee thereafter of £2,000.

THE LEX COLUMN

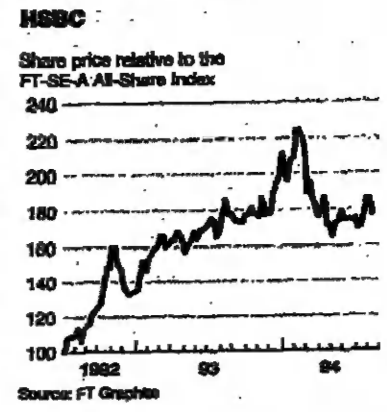
HSBC provides profit

Buried among the big numbers in HSBC's interim results was a strikingly small one – the £7m provision for bad and doubtful debts at HongkongBank Group. For a bank with customer advances of £38bn and a significant exposure to the slowing Hong Kong property market, that is unsustainably low. Quite what a sustainable level would be is harder to judge. If Standard Chartered is right, and the average over a cycle for the region should be around 1 per cent of risk assets, the annual figure for HongkongBank would be nearer £400m. In the UK, talk is of a long-run level of around 0.7 per cent a year. Yet Midland's first-half provisions of £99m, excluding problem country debt, amounted to only 0.26 per cent of customer loans. Proportionately they were even lower than Barclays' which caused a few eyebrows to be raised last week.

This would matter less if dealing profits were about to bounce back smartly. The £92m lost on proprietary trading in interest rate products brought back unhappy memories of the £119m Midland lost in 1989 betting against a rise in UK interest rates. HSBC does not want a repeat and has declared that it will not re-open positions until markets have "stabilised". Since it is difficult to make money in stable markets, last year's £711m of profits from non-foreign exchange dealing may never return.

For bank investors the main attraction of HSBC is that it operates in growth markets. Yet even here the story is looking less convincing. It is still showing good volume growth in Hong Kong, unlike Standard Chartered, but margins are being squeezed and costs are under pressure. Should the trends continue investors will find it increasingly hard to ignore the political risks.

FT-SE Index: 3142.2 (-0.1)



Argos

It is clear from yesterday's interim figures that Argos started to run out of steam some time in the spring. The rate of like-for-like sales growth was around 9 per cent until the end of April but fell to little more than 1 per cent during May and June. Although 6.7 per cent for the six months as a whole is perfectly respectable, the worry must be that Argos has lost momentum going into the more important second half of the year.

Tax increases which came into effect in April must take part of the blame for the slowdown, even though official retail sales figures did not show a steep decline. Argos's strength in areas such as electrical appliances may have made it more vulnerable to consumer caution than many other retailers. As confidence returns this mix of business could work in its favour. After such a strong start to the year the company also ran out of catalogues earlier than expected. The early indications are that the new catalogue is performing well. By holding its selling prices on 80 per cent of its goods, Argos appears to have lost none of its competitive edge.

Even if the early summer doldrums were an aberration, though, Argos will have to work hard to improve on strong sales figures achieved in the second half of last year. Its store opening programme has moved up a gear this year and has several years left to run. But new stores alone can not sustain the kind of growth the stock market is looking for. With cash still accumulating and no sign of a strategic move, it will be difficult for the shares to move ahead without evidence that sales momentum has been restored.

European telecoms

The thinking behind a possible merger of the main Swedish, Dutch and Swiss telecoms operators has merit. All three are middle-sized operators, whose highly profitable international activities are vulnerable to growing competition. The three have already clubbed together to create Unisource, which provides one-stop services to multinationals. But as the old telecoms cartel cracks, they need a strategy to address the much bigger market for carrying ordinary international calls. The danger is that larger carriers could poach their traffic. The corresponding hope is that by joining forces the groups will not merely be able to hold their own but win traffic from rivals' networks.

But engineering any merger would be complex. One precondition would presumably be the privatisation of the Swedish and Swiss operators. So far only the Netherlands' KPN is privatised. Without a market reference price, it would be hard to hammer out financial terms that were seen to be fair. Privatisation would also be the best guarantee for KPN shareholders that a merged entity would be run to enhance shareholder value rather than to advance political objectives.

It is possible that a full merger would be impossible for political reasons and that the companies may instead opt to exchange equity stakes in each other. But a web of cross shareholdings would be a worse option for investors as it would restrict the operators' room for manoeuvre. If political considerations prevent a clean-cut merger, the companies should stick to their more modest aim of merging their international arms.

Confederation Life

The travails of Confederation Life of Canada could work to the advantage of the UK life insurance industry. If its substantial UK operation can be sold to an established insurer, there could be a rare opportunity to reduce capacity in an overcrowded market. Despite the prospect of thinner margins once full disclosure of sales commissions comes into force next year, the industry has been slow to rationalise. Norwich Union's decision last month to reduce its sales force was a rare example of a company taking unilateral action. The biggest deals – such as Abbey National's acquisition of Scottish Mutual and Aegon's link with Scottish Equitable – have introduced additional capital rather than reduced competitive pressure.

The reluctance of smaller life insurers to surrender their independence probably explains the scarcity of deals. In the case of Confederation Life there is at least a willing seller. It seems unlikely that many UK life companies make the kind of investment errors which undermined the Canadian giant. But the prospect of falling sales volumes and squeezed margins points to more UK life insurers changing hands in the months ahead.

Telecoms

Continued from Page 1

Telia is under serious consideration in Sweden, which is one of the world's most competitive telecoms markets. However, the Swiss state operator has yet to be split from its postal division, and early privatisation is unlikely.

Last month Unisource accepted Telefonica, the private Spanish operator, as a full member and forged an alliance with AT&T, the largest US operator. But AT&T's future relationship with Unisource remains uncertain.

US demand on workers' right

Continued from Page 1

country". It establishes as a model, the conventions of the International Labour Organisation, which call for the right to organise unions, a prohibition on compulsory labour and the establishment of minimum labour standards for child labour and occupational health and safety rules.

US directors at the institutions are also required to screen programes "for negative impact" on workers' rights. This could have blocked programmes such as the World Bank's labour reform plan for Nicaragua, which prohibits public sector strikes, and limits the right to organise unions.

US funding for the multilateral development banks has become increasingly unpopular. Last year, the House came within six votes of defeating US funding for them. Mr Frank said it was saved by congressmen who saw the possibility of shifting the institutions' policies to direct the benefits of development to workers and the poor.

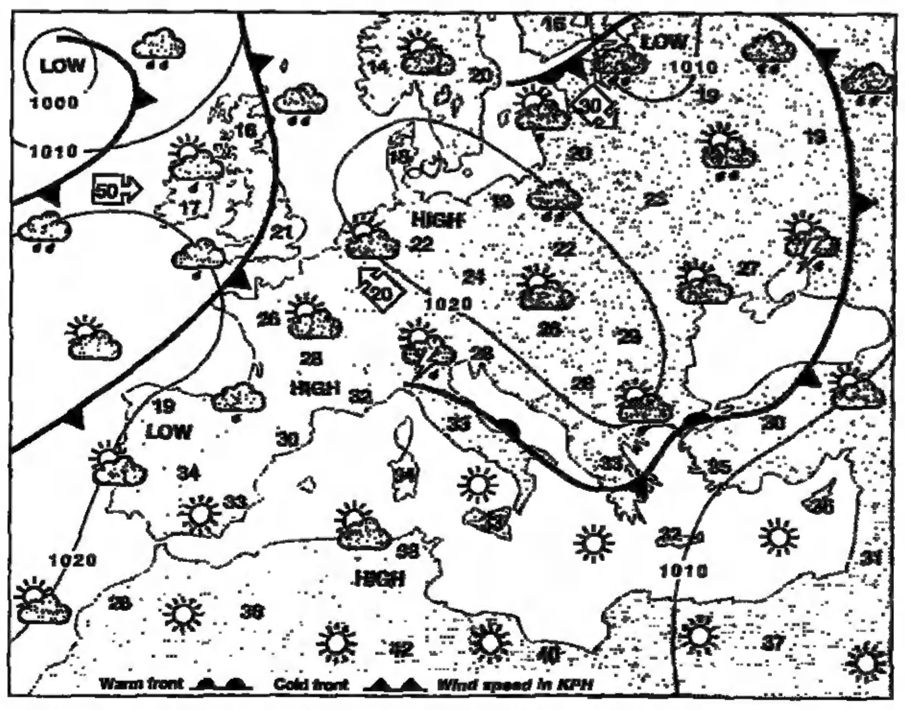
FT WEATHER GUIDE

Europe today

High pressure will strengthen over western Europe. The Benelux, Germany and France will be settled and quite sunny. Northern Spain and southern France will have showers. Afternoon and evening showers will also occur in the Alps and northern Italy where temperature will be near 30C. Central Spain will stay hot and sunny with temperatures exceeding 35C. An Atlantic frontal system with cloud and showers will arrive in the British Isles. Northern Europe will be quite cool, with temperatures from 11C in the north to 20C in the south. Nevertheless, it will be clear and settled under the influence of a ridge of high pressure. Poland and north-west parts of Russia will have cloud and some rain.

Five-day forecast

A strong westerly flow will develop in many parts of Europe, introducing cool, rainy and windy conditions in the second half of the week. However, southern Germany and France, along with southern Europe, will become warmer and more tranquil. South-east Europe will be unsettled with frequent thunder storms, especially over Greece and the Balkans.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius																
			Beijing	fair	32	Caracas	thund	27	Faro	sun	26	Madrid	sun	34	Rangoon	drzzl	28
			Belfast	rain	18	Cardiff	rain	18	Frankfurt	fair	27	Majorca	sun	34	Reykjavik	rain	14
Abu Dhabi	sun	43	Belgrade	sun	27	Casablanca	fair	26	Geneva	shower	27	Malta	sun	36	Rio	fair	26
Accra	thund	28	Berlin	fair	22	Chicago	shower	28	Gibraltar	sun	31	Manchester	rain	18	Rome	sun	33
Algiers	fair	35	Bermuda	fair	33	Cologne	fair	25	Glasgow	rain	17	Manila	shower	33	S. Frsco	sun	30
Amsterdam	fair	23	Bogota	cloudy	18	Dakar	fair	31	Hamburg	cloudy	20	Melbourne	shower	14	Seoul	shower	34
Athens	sun	35	Bombay	drzzl	30	Dallas	sun	34	Helsinki	fair	19	Mexico City	fair	23	Singapore	drzzl	31
Atlanta	thund	29	Brussels	fair	23	Delhi	rain	31	Hong Kong	thund	30	Miami	thund	33	Stockholm	fair	20
B. Aires	cloudy	12	Budapest	fair	26	Dubai	sun	42	Honolulu	fair	34	Milan	thund	29	Strasbourg	fair	27
B.ham	rain	19	C.hagen	fair	19	Dublin	shower	18	Istanbul	sun	30	Montreal	sun	24	Sydney	fair	17
Bangkok	drzzl	33	Cairo	sun	37	Dubrovnik	sun	31	Jakarta	fair	32	Moscow	rain	21	Tangier	fair	28
Barcelona	sun	29	Cape Town	fair	15	Edinburgh	shower	18	Jersey	cloudy	19	Munich	fair	24	Tel Aviv	sun	36
									Karachi	cloudy	32	Nairobi	thund	26	Tokyo	fair	31
									Kuwait	sun	47	Naples	sun	33	Toronto	cloudy	26
									L. Angeles	sun	34	Nassau	thund	32	Vancouver	thund	20
									Las Palmas	sun	26	New York	fair	27	Venice	sun	29
									Lima	cloudy	18	Nice	sun	29	Vienna	fair	25
									Lisbon	sun	26	Nicosia	sun	39	Warsaw	shower	23
									London	shower	22	Oslo	fair	21	Washington	shower	27
									Lux.bourg	fair	23	Paris	fair	26	Wellington	fair	12
									Lyon	shower	29	Perth	fair	21	Winnipeg	fair	23
									Madeira	fair	25	Prague	fair	24	Zurich	shower	24